



**EUROCASTLE**  
**INVESTMENT LIMITED**

2017 Annual Report



Eurocastle Investment Limited is a publicly traded closed-ended investment company that focuses on investing in Italian performing and non-performing loans, Italian NPL servicing platforms and other real estate related assets primarily in Italy.

The Company is Euro denominated and is listed on Euronext Amsterdam under the symbol "ECT". Eurocastle is managed by an affiliate of Fortress Investment Group LLC, a leading global investment manager. For more information regarding Eurocastle Investment Limited and to be added to our email distribution list, please visit [www.eurocastleinv.com](http://www.eurocastleinv.com).

# LETTER TO OUR SHAREHOLDERS

Dear Fellow Shareholders,

Eurocastle (“the Company”) has enjoyed an extremely successful year, achieving strong returns on key investments and participating in landmark deals, allowing us to achieve meaningful earnings and make record distributions to our shareholders.

The main highlight for the year was the successful initial public offering (“IPO”) of Eurocastle’s principal investment, the doBank Group, in July. Eurocastle, together with other Fortress affiliates, sold ~49% of their holding in doBank. The IPO valued the company at €704 million compared to the total acquisition cost of €317 million. As a result, Eurocastle fully recovered the €158 million it had invested, realised a further €34 million and still owns over 25% of the company, a stake currently valued at approximately €238 million<sup>1</sup>.

Since the doBank IPO, Eurocastle has continued to execute on its investment strategy, maintaining its position as a leading investor in Italian NPLs and related assets. In July, Eurocastle, together with other Fortress affiliates, closed on the acquisition of an interest in a €14.4 billion gross book value (“GBV”) NPL portfolio from UniCredit, commonly known as FINO. FINO is one of the largest NPL portfolios to have traded in Italy since the financial crisis, another being our acquisition of a €3.3 billion GBV NPL portfolio as part of the doBank transaction. At completion of the acquisition, the FINO portfolio was divided into two securitisations, FINO 1 and FINO 2. To maximize the return on our investment, Eurocastle sold its share in the senior notes of the FINO 1 securitisation resulting in approximately €48 million of net proceeds. The senior notes are guaranteed by the Italian state under the program known as “GACS” and we see it as an extremely attractive form of financing. In November, Eurocastle committed to a follow-on investment in FINO, investing approximately €8 million to acquire additional interests in the mezzanine and junior notes of both FINO securitisations.

Another key event for the Company was the establishment of a new distribution policy with the aim of paying out substantially all of our Normalised FFO (“NFFO”) realised in cash and accelerating the return of any surplus capital. Under this policy, we achieved record dividends to shareholders of €116 million (€2.10 per share) relating to 2017. In addition, we continued to explore opportunities to provide liquidity and enhance cash returns for our shareholders. Notably, in November we completed a tender offer at €10.00 per share, a slight premium to the share price at the time, acquiring 13.75% of the Company’s shares at a small discount to NAV returning €84 million to participating shareholders.

## ITALIAN INVESTMENTS

To date, we have deployed approximately €500 million in Italian investments, including doBank, 22 loan pools (including FINO) and five Italian Real Estate Funds. Of this amount, €144 million was invested or committed during 2017. Our investments continue to deliver outstanding performance, returning to date €403 million, or 81% of the equity invested.

Eurocastle’s largest investment, doBank, completed its IPO on July 14th at €9.00 per doBank share, a valuation of €704 million. doBank’s shares are currently trading at €11.88 per share<sup>1</sup>, a 32% premium to the IPO price.

From an operating standpoint, doBank saw a strong year, reporting 2017 EBITDA of over €70 million, up 9% compared to 2016 on a like-for-like basis<sup>2</sup>. EBITDA growth was driven by collections of €1.8 billion, up 8% on last

<sup>1</sup> As of 20<sup>th</sup> March 2018 based on a closing doBank share price of €11.88 per share.

<sup>2</sup> Financials for 2016 are pro forma for the acquisition of 100% of the share capital of Italfondinario S.p.A. and derecognition of the Romeo portfolio, as if these had been put in place on 1 January 2016.

# LETTER TO OUR SHAREHOLDERS

year. Looking ahead, we are very optimistic about doBank's future performance. As the dominant servicer in Italy, we believe doBank is very well positioned to take advantage of the significant growth opportunities in that market. Since the IPO, doBank has signed over €11 billion GBV of new servicing contracts, well above the company's stated target, which will begin adding to EBITDA this year.

Our other Italian investments continue to perform well. The NPL portfolios in aggregate, on an unlevered basis, have returned 117% of our initial expectation in terms of pace, and for those loans resolved in full, 172% of the projected amount. Cash flows from these investments on a running basis also remained strong with €65.6 million generated in 2017.

Our strategic investments in Italian real estate have also achieved outstanding results this year. Out of five funds in which we have an interest, we monetized two funds in 2017, realizing approximately €39 million of lifetime profit, a 2.6x multiple on our original investment and an IRR of 116%.

## FINANCIAL RESULTS

Our financial results reflect our ongoing efforts to generate strong cash flows from our investments and make distributions to our shareholders. NFFO for the year was €111.1 million, or €1.86 per share, an increase of €1.16 per share from last year. We declared record dividends of €102.1 million or €1.83 per share in 2017<sup>1</sup>, and declared an additional €0.27 per share fourth quarter dividend to be paid in the first quarter of 2018. Our total return on NAV for the year was €3.23 per share or 35%, taking into account dividends paid in 2017 and NAV growth of €1.40 per share.

## OUTLOOK

As the Italian market continues to evolve, and with two significant transactions under our belt in the last two years, we continue to view Italy as a very attractive market with potential to deploy more capital in the next few years.

The NPL market in Italy remains the largest in Europe, with approximately €300 billion GBV of troubled loans on the banks' balance sheets, €200 billion of which are currently non-performing. Banks continue to be under pressure from the ECB to strengthen their capital resources. Recent measures, which include additional guidance from the ECB driving more stringent provisioning, combined with changes in the accounting treatment of the NPLs for banks providing greater flexibility in the accounting treatment of NPLs should in turn help to narrow the gap between bid and ask price.

Under current market dynamics and with our demonstrated ability to execute on large and complex transactions, we see ourselves as a key potential co-investor and partner to banks in their efforts to deleverage.

We continue to target large complex NPL transactions, and also see attractive opportunities in smaller NPL portfolios backed by a single borrower.

We are very excited about these potential upcoming opportunities and look forward to updating you on our progress in 2018.

<sup>1</sup> Dividends declared in 2017 relate to the first three quarters of 2017, the fourth quarter dividend was declared in March 2018.

## FINANCIAL HIGHLIGHTS<sup>1</sup>

Q4 Adjusted NAV<sup>2</sup>: €556.5 mm

**€10.56ps**

(Q3 17: €641.0 mm / €10.49ps)

*Movement since Q3 2017 reflects:*

- **€1.12ps** of net value increases (**€0.98ps** from doBank)
- **€0.08ps** share tender accretion
- **€(1.13)ps** from payment of the Q3 dividend

FY 2017 NFFO: €111.1 mm

**€1.86ps**

(Q4 17: €7.8 mm / €0.14ps)

(FY 16: €46.0 mm / €0.70ps)

FY 2017 Dividend: €116.3 mm

**€2.10ps**

(Q4 17: €14.2 mm / €0.27ps)

(FY 16: €33.1 mm / €0.525ps)

*Q4 2017 Dividend declared on 20 March 2018  
& payable on 5 April 2018*

## 2017 BUSINESS HIGHLIGHTS

### Successful doBank IPO

In July 2017, doBank completed a **€704 million** IPO at €9.00 per doBank share, (equivalent to approximately **2.5x Eurocastle's original investment**, net of distributions received up to the IPO). doBank is the largest & highest rated third party NPL servicing group in Italy.

- Eurocastle's holding of **20 million shares**, representing 25.6% of doBank's outstanding shares, was **valued at €13.55** per doBank share as at 31 December 2017, up from €10.98 per doBank share as at 30 September 2017. This followed the announcement of over **€9 billion GBV of new servicing contracts** in the fourth quarter. Subsequent to year-end, doBank announced a **further €2.4 billion GBV** of new contracts.

### doBank Financial Performance

- The doBank Group reported **EBITDA** for the full year of 2017 of **€70.1 million**, up **9% like-for-like<sup>3</sup>** over the same period last year (FY 2016: €64.3 million) driven by collections of €1.8 billion, up 8% over last year<sup>4</sup>.
- **Net profit** for the same period was **€45.0 million**, up **11% like-for-like<sup>3</sup>** over the same period last year (FY 2016: €40.4 million).
- In March 2018, the board of doBank approved, subject to shareholder approval, a **dividend of €31.5 million** expected to be paid in May 2018 (of which Eurocastle's share is approximately €8 million).

### Strong Capital Deployment

During 2017, **invested or committed over €144 million** of capital including **€117 million** relating to FINO, one of the largest NPL transactions in Italy since the financial crisis.

- In the first half of the year deployed **€1.3 million** in RE Fund IV and **€4.1 million** of previously committed equity in RE Fund V with an additional **€0.6 million** deployed in November. Expect to fund remaining investment, estimated to be €0.8 million, during 2018.
- In July, deployed **€43.9 million** to acquire an interest in a **€14.4 billion GBV NPL** portfolio from UniCredit S.p.A ("FINO")<sup>5</sup>. The portfolio was subsequently split into two securitisation vehicles. A **deferred purchase price of €64.7 million is payable over the next few years**. In the fourth quarter 2017, committed an additional **€8.4 million** investment in the mezzanine and junior notes of the two securitisations.
- In November, invested **€12.2 million** for a shared interest in a new NPL pool with a GBV of €293 million.
- In December, deployed **€9.0 million** to acquire a share of a leveraged interest in a performing and sub-performing ("PL/SPL") loan portfolio of €234 million GBV.

### Significant Distributions to Shareholders

- In 2017 **established a new distribution policy** and declared total dividends related to the period of **€116.3 million** representing 100% of NFFO realised in cash. This includes a **€14.2 million, or €0.27 per share**, Q4 dividend declared by the Board on 20 March 2018 and payable on 5 April 2018.
- In November 2017, Eurocastle **repurchased 8.4 million shares** (representing **13.75%** of the Company's voting shares in issue) at a price of **€10.00** per share, returning **€84 million** of capital received following the Company's partial sale of its stake in doBank through the IPO. The completed repurchase was NAV and earnings accretive, **increasing pro forma NFFO per share by approximately 15% and Q3 NAV per share by approximately 1%**.

### Other Significant Realisations

- In addition to the **€166 million** of proceeds received from the doBank IPO, the Company also received approximately **€26 million** relating to doBank's 2016 dividend.
- In February 2017, Eurocastle sold its remaining interest in the units of Real Estate Fund Investment III. The sale resulted in total proceeds of **€20.9 million** and a total lifetime gross profit of **€18.0 million**, an **IRR of 137%** and a **2.7x** multiple on equity invested.
- In May 2017, the Company announced the successful completion on the financing of the secured portion of its Romeo NPL portfolio. As a result, it received approximately **€36 million** or 50% of the net proceeds after costs and reserves.
- In October 2017, the remaining properties held in Real Estate Fund Investment IV were sold, realising gross proceeds to Eurocastle of **€33.6 million** and **€4.6 million** ahead of ECT's Q3 carrying value. Taking into account previous distributions, the sale resulted in a total lifetime gross profit of **€21.6 million**, an **IRR of 95%** and **2.6x** multiple on equity invested.
- During 2017, the Company unwound its interest in the last remaining Legacy portfolio<sup>6</sup> (CDO V) and as such has now fully disposed of all Legacy investments.

## BUSINESS HIGHLIGHTS SUBSEQUENT TO 31 DECEMBER 2017

### Sale of Senior Notes of FINO 1 Securitisation

- Raised approximately **€48 million** of net proceeds through the sale of its share of the senior notes of FINO 1 Securitisation S.r.l., one of the two securitisations that collectively own the FINO NPL portfolio acquired from UniCredit S.p.A. The senior notes are guaranteed by the Italian state under the “GACS” program and are therefore seen as an extremely attractive form of financing.

### Follow on Investment in FINO NPL Portfolio

- Closed on a **€8.4 million** follow-on investment to acquire, together with other Fortress affiliates, additional interests in the mezzanine and junior notes of the two securitisations that collectively own the FINO NPL portfolio.

## CHANGE IN ACCOUNTING POLICY

The Board of Directors of the Company has periodically assessed whether it met the definition of an investment entity as set out under IFRS 10. Following the resolution of the Company’s last remaining Legacy investment, CDO V, the Board of Directors came to the conclusion, that as of 1 July 2017, the Company met the requirements to be classified as an investment entity as defined under IFRS 10. The impact of this change is that all investments, whether through subsidiaries, associates or joint ventures, are to be fair valued through profit and loss rather than accounting for them under the equity method as previously. This change is to be applied prospectively from 1 July 2017 onwards.

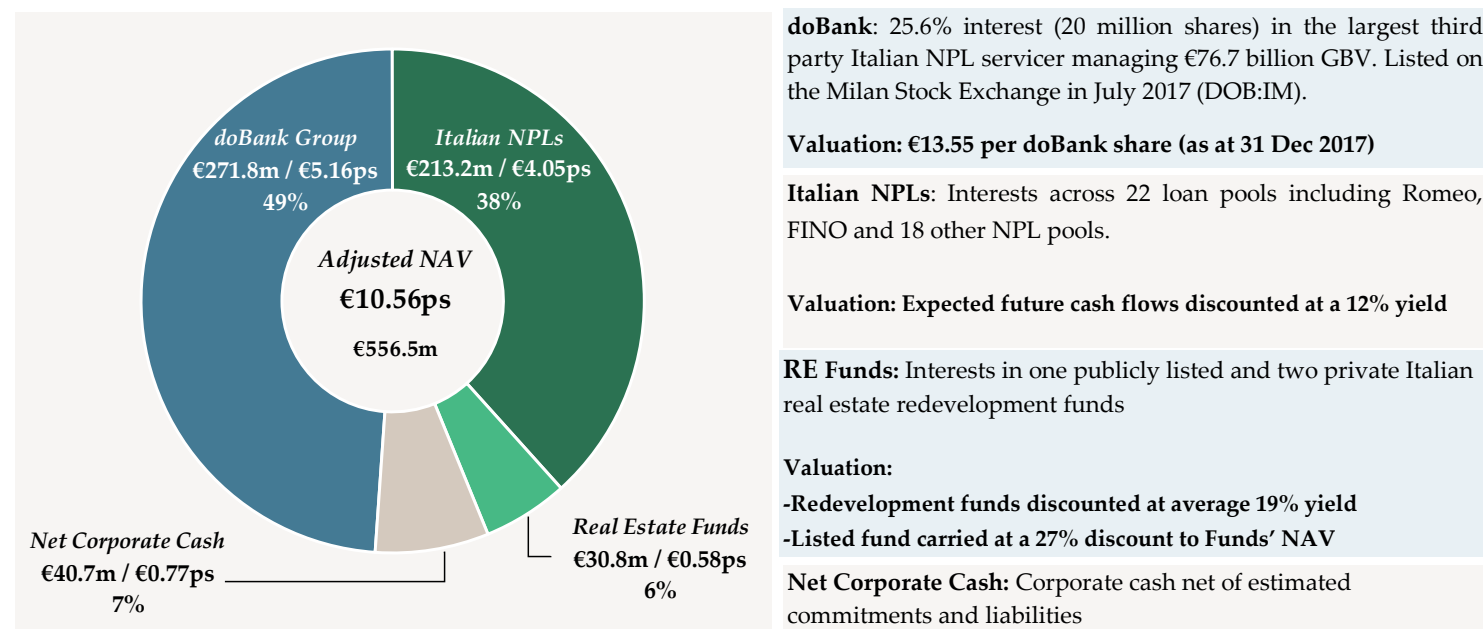
In addition, as a result of the amendment to IFRS 10, the Company will no longer prepare consolidated financial statements from the same date. As from 1 January 2018, these separate financial statements of the Company will therefore be its only financial statements.

## COMPANY STRATEGY

Eurocastle’s strategy is to focus on investments in Italian performing and non-performing loans and other credit receivables, Italian loan servicing platforms, real estate related assets and other related businesses in Italy. The Company believes that the markets in which it seeks to make investments, and in particular Italy, continue to be characterised by a significant imbalance between sellers and buyers of investments, including real estate related investments. This has been driven in large part by banks’ requirements to deleverage, which has resulted in them seeking to make provisions for, and seeking to sell, their non-core assets to improve capital ratios. The Company believes that this imbalance creates attractive investment opportunities, especially because there is a limited universe of buyers with access to deep market knowledge, industry relationships and servicing expertise.

## PORTFOLIO OVERVIEW

Eurocastle’s current portfolio of Italian Investments is made up of three key segments: the doBank Group, Italian NPLs and Real Estate Funds, with the remainder comprising Net Corporate Cash. The chart below shows the segmental net assets as at 31 December 2017.

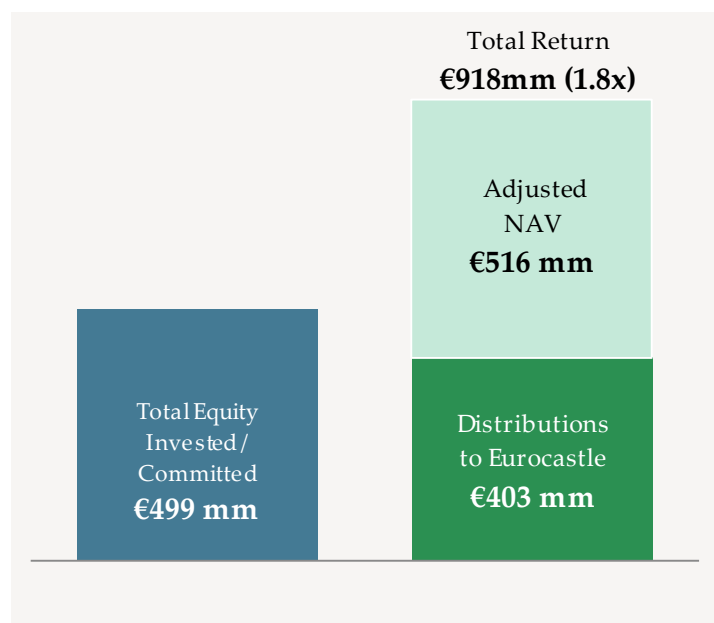


## THE INVESTMENTS

Since May 2013, Eurocastle has invested or committed €499 million in its Italian Investments at an average targeted gross yield in the mid-teens.

The Company generates its running cash returns from these investments through recoveries received on the NPL pools, dividends on its remaining interest in the doBank group and operating and sales cash flows from its real estate fund investments. The Company values these investments at their fair value. Cash flow performance, as well as other factors influencing projected cash flows, therefore plays a key part in the Company's earnings each quarter.

The table below summarises Eurocastle's share of all fully deployed investments and pending commitments since the establishment of its new strategy in April 2013:



	Equity Allocated € million	Equity Committed € million	Total Equity Allocated/ Committed € million	Total Cash flows Distributed to Eurocastle € million	Adjusted NAV € million	Adjusted NAV € per share	Total Return (Cash flows Distributed + Adj. NAV) € million
doBank Group <sup>7</sup>	158.4	-	158.4	191.8	271.8	5.16	463.6
Italian NPLs (22 portfolios)	196.1	73.1	269.2	112.2	213.2	4.05	325.4
Real Estate Funds (5 funds) <sup>8</sup>	66.6	0.8	67.4	83.8	30.8	0.58	114.6
Other Investments <sup>9</sup>	4.0	-	4.0	14.7	-	-	14.7
<b>Italian Investments</b>	<b>425.1</b>	<b>73.9</b>	<b>499.0</b>	<b>402.5</b>	<b>515.8</b>	<b>9.79</b>	<b>918.3</b>

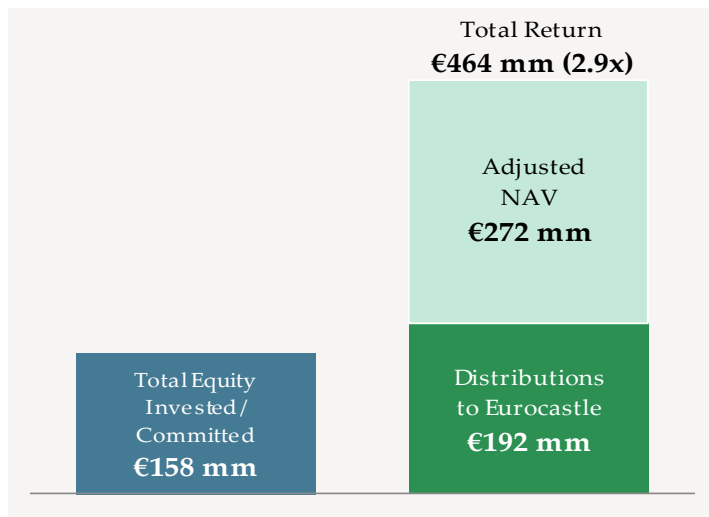
In addition to the cash flows distributed as detailed above, a further €13.6 million has been generated for Eurocastle and as at 31 December 2017 was held at the level of the investment (and therefore included within the Adjusted NAV of the investment), bringing total cash flows generated to date by Eurocastle to €416.1 million of which, €300.1 million were in 2017.

## DOBANK GROUP

In October 2015, Eurocastle acquired a 50% interest in doBank (formerly UniCredit Credit Management Bank S.p.A) from UniCredit S.p.A. for a net purchase price of ~€246 million. The transaction included i) a large NPL portfolio of €3.3 billion GBV<sup>10</sup> (the “Romeo NPLs”) and ii) an NPL servicing business with a banking license and a 10 year servicing flow contract with UniCredit.

Following the acquisition of Italfondinario, completed in the fourth quarter of 2016, and the transfer of the Romeo NPLs to a separate vehicle<sup>11</sup>, the group successfully listed on the Milan stock exchange (under ticker DOB:IM) in July 2017 and today represents the largest independent servicing group in Italy (the “doBank Group”).

In connection with the listing, Eurocastle sold 48.8% of its holding retaining, together with Fortress affiliates, a joint 51.2%<sup>12</sup> interest.



	Total Equity Allocated € million	Total Cash flows Distributed to Eurocastle € million	Adjusted NAV € million	Adjusted NAV € per share	Total Return (Cash flows Distributed + Adj. NAV) € million
doBank Group	158.4	191.8	271.8 <sup>13</sup>	5.16	463.6

The doBank Group is Italy’s leading independent servicer of NPLs by GBV of loans under management, serving a broad range of banks and investors. As at 31 December 2017, the group serviced loans with a GBV of €76.7 billion. The group also provides ancillary products and services and engages in certain secondary banking activities related primarily to the management, purchase and sale of NPLs.

doBank’s results for 2017 continued to evidence the growth of the business year-on-year on a like-for-like<sup>3</sup> basis:

- **EBITDA** was reported at €70.1 million, an **increase of 9% to the same period last year<sup>3</sup>**
- **Collections on claims serviced** totaled €1.8 billion, **8% above the amount achieved in 2016<sup>4</sup>**
- **Net profit** for the period was €45.0 million, **11% higher than 2016<sup>3</sup>**
- **Declared a €31.5 million dividend** (70% payout ratio) - expected to be paid in **May 2018**

In addition to the positive operating results which reflect the continued improvement in operational efficiencies, doBank has made significant progress in attracting new servicing mandates to further grow revenues. Since the IPO in July, doBank has signed three new contracts on €11.4 billion GBV of NPLs which are all expected to commence in the first quarter of 2018 increasing its AUM pro forma for these new agreements to over €88 billion. The largest of these relates to a portfolio originated by Monte Paschi di Siena (“MPS”) which was securitised in December 2017 and is estimated by doBank to initially add approximately €20 million of EBITDA per annum once in place and fully stabilised, representing an operating margin in excess of two thirds of revenues generated. doBank believes it can achieve such attractive margins on these new contracts given its size and significant operating leverage enabling it to on-board the portfolios at no significant additional fixed costs.

Eurocastle’s valuation of its remaining 26% interest in the doBank Group as at 31 December 2017 was €271.8 million<sup>13</sup>, or €5.16 per Eurocastle share. This reflects a price of €13.55 per doBank share as at 31 December 2017. The valuation, together with the IPO proceeds and the dividend of €26.2 million paid by doBank to Eurocastle in May 2017, resulted in a significant fair value gain of €193.5 million, or €3.25 per Eurocastle share, an increase of 73% for 2017. Of this, €51.8 million, or €0.90 per Eurocastle share (23%), was recognised in the fourth quarter reflecting the share price appreciation up to the end of the year.

doBank AUM	Key Metrics
Claims under management	673k
Loan Size	€113k
% Large Loans (>500k GBV)	50%
% Corporate	70%
% of secured	32%
% of soft secured	49%

Summarised Profit & Loss	FY 2017	FY 2016 <sup>3</sup>
NPLs Under Management (GBV in €bn)	76.7	80.9
Gross Collections (in €bn)	1.8	1.7
Gross Revenues (in €mm)	213.0	206.2
Expenses (in €mm) <sup>14</sup>	(142.9)	(141.9)
<b>EBITDA (in €mm)</b>	<b>70.1</b>	<b>64.3</b>
<b>NET INCOME (in €mm)</b>	<b>45.0</b>	<b>40.4</b>

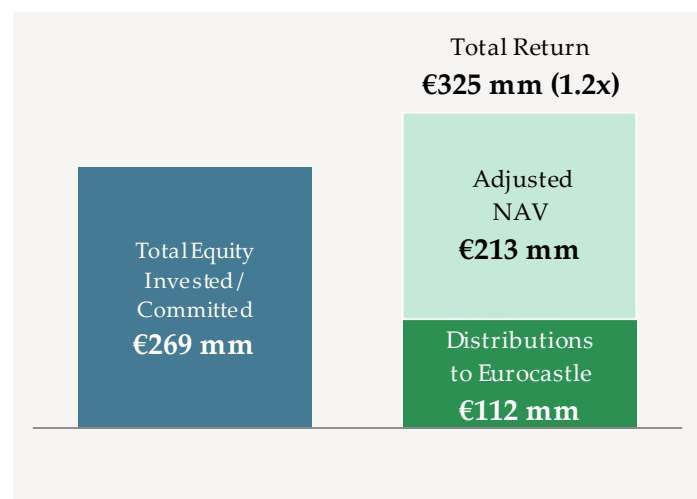


## ITALIAN NPLS

Since May 2013, the Company has invested or committed approximately €269 million in 22 Italian loan pools with a combined GBV of approximately €25 billion, comprising:

- i) a minority interest in a €14.4 billion GBV sub-pool of the €17.7 billion GBV FINO NPL portfolio sold by Unicredit in July 2017
- ii) a 47.5% interest in the €3.3 billion GBV NPL portfolio acquired as part of the doBank transaction
- iii) interests across 20 smaller diverse pools with a combined GBV of €6.9 billion

The portfolios are all serviced by the doBank Group.



	Equity Allocated € million	Equity Committed € million	Total Equity Allocated/ Committed € million	Total Cash flows Distributed to Eurocastle € million	Adjusted NAV € million	Adjusted NAV € per share	Total Return (Cash flows Distributed +Adj. NAV) € million
Italian NPLs (22 pools)	196.1	73.1	269.2	112.2	213.2	4.05	325.4

## FINO NPL

In July 2017, the Company acquired a minority interest in a €14.4 billion GBV sub-pool of the €17.7 billion GBV FINO NPL portfolio sold by Unicredit S.p.A.. At completion of the acquisition, and following interim collections from the cut-off date, the sub-pool in which the Company invested had reduced to €13.2 billion GBV and was split into two Italian securitisation vehicles, FINO 1 (€5.4 billion GBV) and FINO 2 (€7.8 billion GBV). The transaction included the indirect acquisition by Eurocastle of an equal portion of all of the notes of these two Italian securitisation vehicles, as well as the provision of certain services to the vehicles. The transaction terms include a deferred purchase price mechanism under which further amounts are payable by Eurocastle over the next few years up to an amount of €64.7 million which is expected to be funded by collections on the portfolio.

At the end of November 2017, both Moody's and DBRS assigned an investment grade rating to the senior notes (comprising 84% of the capital stack) of the FINO 1 securitisation. These notes were therefore eligible to be guaranteed by the Italian state government under the "GACS" programme, which was obtained in January 2018. Shortly after the granting of the GACS, Eurocastle and the other investors of FINO 1 sold their share of these senior notes, resulting in approximately €48 million of net proceeds to the Company. The sale of these notes, which pay an interest cost of three month Euribor plus 1.50%, is seen by the Company as an extremely attractive form of financing for its remaining investment in FINO. Shortly after this transaction, the Company closed on an €8.4 million follow-on investment to acquire, together with other Fortress affiliates, additional minority interests in the mezzanine and junior notes of the two securitisations that collectively own the FINO NPL portfolio.

## ROMEO NPL

The Romeo NPL portfolio is a €3.3 billion<sup>10</sup> GBV portfolio in which Eurocastle has a 47.5% direct interest. The pool was acquired as part of the doBank transaction in October 2015. The portfolio was characterised by a larger average loan size of €703 thousand with a greater exposure to Northern and Central Italy of 81% and was 42% secured by real estate assets. In May 2017, the secured portion of its Romeo NPL portfolio was financed through a €75 million facility of which €67 million is currently outstanding.

Balance Sheet <sup>15</sup>	€ million
Value of Unlevered Cash flows	81.4
Portfolio Level Financing	(33.3)
Other Assets / Liabilities	0.6
<b>Romeo NPL NAV</b>	<b>48.7</b>
NAV Per share	0.92

## OTHER NPL ACQUISITIONS

During the year, in addition to the FINO NPL portfolio investment, the company acquired two loan pools for an aggregate investment of €21.2 million, comprising i) €9.0 million for a share of a leveraged interest in a fully secured performing and sub-performing (“PL/SPL”) loan portfolio of €234 million GBV backed by Italian residential real estate assets and ii) €12.2 million for a shared interest in an NPL pool with a GBV of €293 million which is 83% secured by residential real estate.

## NPL PERFORMANCE UPDATE

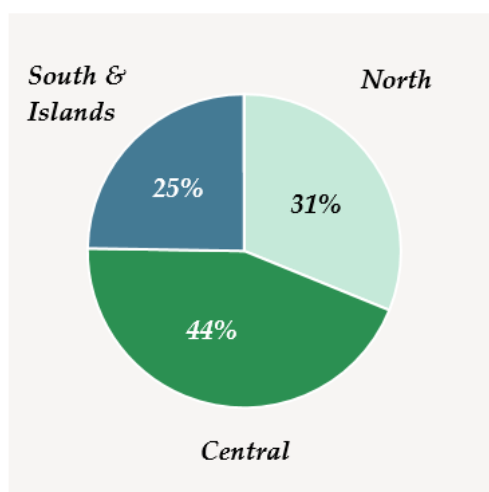
Portfolio performance on all NPL pools has remained strong. To date the Company has received €125.3 million of cash flows, €43.2 million above underwriting implying a levered pace of collections of 153%. On an unlevered basis, loan collections continue to outperform, reflecting a pace of 117%<sup>16</sup> and profitability of 172%<sup>17</sup> of underwriting expectations.

	<b>Performance to date</b> € million
Cash Flows Generated <sup>18</sup>	125.3
Original Underwriting	82.1
<b>Variance</b>	<b>43.2</b>
Levered Pace vs. Underwriting	153%
Unlevered Pace vs. Underwriting <sup>16</sup>	117%
Unlevered Profitability vs. Underwriting <sup>17</sup>	172%

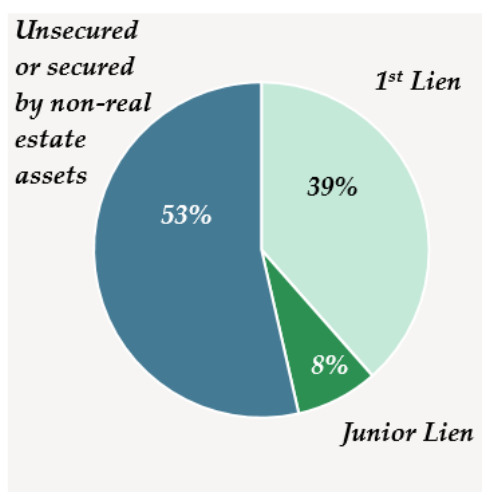
In aggregate, NPL pool valuations increased by €14.6 million, or €0.25 per share (8%), during the first nine months of 2017 of which €6.4 million, or €0.11 per share (6%) was recognised in the fourth quarter. This increase reflects the appreciation in the value of the future cash flows expected from these pools given the reduction in the remaining life over which they are discounted and includes the Company’s recent acquisition of its initial interest in the FINO portfolio.

## NPL PORTFOLIO BREAKDOWN<sup>19</sup>

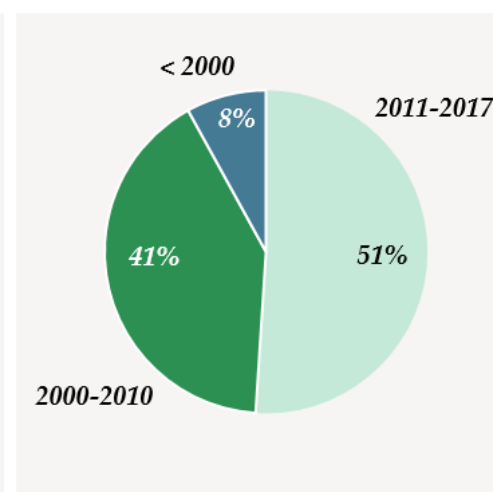
### Region



### Security



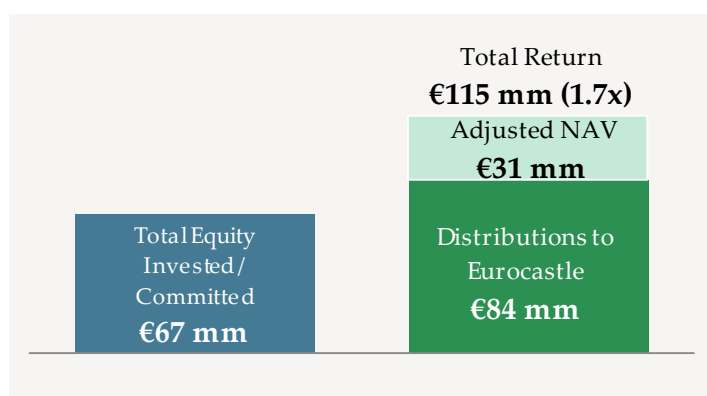
### Default Year



## ITALIAN REAL ESTATE FUNDS

Since 2014, Eurocastle has made several investments in this asset class, investing or committing €67.4 million in five separate real estate funds.

The Company opportunistically targets either public or private funds that can be acquired at a significant discount to the value of their underlying assets. Returns from these investments are therefore generated primarily from asset sales as the funds approach their maturity dates.



RE Fund Investments	Equity Invested € million	Equity Committed € million	Total Equity Invested/ Committed € million
I	22.2	-	22.2
II	15.4	-	15.4
III (Fully Realised Feb'17)	10.7	-	10.7
IV((Properties sold Oct'17)	13.3	-	13.3
V	5.0	0.8	5.8
<b>TOTAL</b>	<b>66.6</b>	<b>0.8</b>	<b>67.4</b>

Total Cash flows Distributed to Eurocastle € million	Adjusted NAV € million	Adjusted NAV € per share	Total Return (Cash flows Distributed +Adj. NAV) € million
15.2	11.1	0.21	26.3
5.3	13.1	0.25	18.4
28.7	-	-	28.7
34.6	0.3	0.01	34.9
-	6.3	0.11	6.3
<b>83.8</b>	<b>30.8</b>	<b>0.58</b>	<b>114.6</b>

### RE Fund I

Publicly listed (QFUNO:IM) with five mixed-use properties

- Fund manager is in the process of selling down the remaining assets with six assets sold in 2017.
- Fair value increased by €1.6 million, or €0.03 per share (11%), during 2017 and €1.8 million, or €0.03 per share (19%), during the fourth quarter 2017.
- Fair value represents the Company's holding of 11k units valued at €936 per unit, equivalent to a 27% discount to fund's reported NAV.

### RE Fund II

Private Redevelopment Fund (Two Properties)

- First asset redevelopment completed, nearing completion on the second asset. Focus turned to marketing.
- As a result of the change in accounting policy effective 1 July 2017, and taking in to account the fair value movement net of distributions during the year, the carrying value of this investment increased by €4.5 million in 2017, or €0.08 per share (42%) in 2017.

### RE Fund III & IV – (sold in Feb & Oct'17)

- In February 2017, realised total proceeds of €20.9 million from the sale of RE Fund III. Total lifetime gross profit was of €18.0 million, resulting in an IRR of 137% and 2.7x multiple on equity invested.
- In October 2017, sold the remaining properties in RE Fund IV realising gross proceeds of €33.6 million, €4.6 million ahead of the Company's Q3 17 carrying value. Taking into account previous distributions, the sale resulted in a total lifetime gross profit of €21.6 million, an IRR of 95% and 2.6x multiple on equity invested.

### RE Fund V

Newly established Private Redevelopment Fund (One Property)

- Redevelopment under way. Expect to deploy remaining €0.8 million during 2018, with the first cash flows anticipated in 2019
- Fair value increased by €0.6 million, or €0.01 per share (11%), during 2017 and €0.2 million, or €0.004 per share (5%), during the fourth quarter.

Further details of all remaining portfolios as at 31 December 2017 can be found in the table below:

	Fund Investment I	Fund Investment II	Fund Investment V
Investment Status	Active	Active	Active
Investment Date	Mar-14	Jul-14	Q2-17
Eurocastle Ownership	7.5%	49.3%	49.6%
Fund Type	Publicly Listed	Private	Private
Collateral Type	5 mixed use properties	2 luxury residential redevelopments	1 luxury residential redevelopment
Collateral Location	Northern & Central Italy	Rome	Rome
Fund Leverage	0%	29%	41%
Fund Expiration <sup>20</sup>	Q4 2020	Q2 2018	Q2 2020

## INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

Following the change in classification to an investment entity as defined under IFRS 10, all investments are to be fair valued through profit and loss prospectively from 1 July 2017 onwards. The Company's income statement as reported under IFRS therefore presents six months of consolidated results for the first half of 2017 and six months of Company stand-alone results from 1 July 2017. To aid understanding of performance, the table below also reflects the profit and loss under the retrospective application, i.e. as if the Company had always been classified as an investment entity, which is consistent with how the information was presented in the Company's Q3 2017 interim report.

	IFRS	Adjustments		Non-IFRS
	Prospective € Thousands	Reallocation € Thousands	Timing € Thousands	Retrospective € Thousands
<b>Portfolio Returns</b>				
doBank Group	193,526	-	-	193,526
Romeo NPLs	6,882	-	-	6,882
FINO NPLs	2,988	-	-	2,988
Other NPL Pools	3,436	1,335	-	4,771
Real Estate Fund Investment I	1,611	-	-	1,611
Real Estate Fund Investment II	(2,528)	626	-	(1,902)
Real Estate Fund Investment III	1,445	-	-	1,445
Real Estate Fund Investment IV	9,190	-	-	9,190
Real Estate Fund Investment V	552	-	-	552
<b>Fair value movement on Italian investments</b>	<b>217,102</b>	<b>1,961</b>	<b>-</b>	<b>219,063</b>
Real Estate Fund Investment II	626	(626)	-	-
Other NPL Pools (Pools 6,7-18)	1,335	(1,335)	-	-
<b>Share of post tax profits from Italian investments</b>	<b>1,961</b>	<b>(1,961)</b>	<b>-</b>	<b>-</b>
Fair value movements on operating subsidiaries - New investments	(1,967)	-	-	(1,967)
Fair value movements on operating subsidiaries - Legacy investments	879	-	-	879
<b>Fair value movements on other investments</b>	<b>(1,088)</b>	<b>-</b>	<b>-</b>	<b>(1,088)</b>
<b>Gain on classification to an investment entity - Real Estate Fund Investment II</b>	<b>6,393</b>	<b>-</b>	<b>(6,393)</b>	<b>-</b>
<b>Other Income</b>				
Other income – Legacy investments	2,379	-	-	2,379
Gains on foreign currency, translation and other derivatives	7,381	-	-	7,381
<b>Total income</b>	<b>234,128</b>	<b>-</b>	<b>(6,393)</b>	<b>227,735</b>
<b>Operating Expenses</b>				
<b>Interest expense</b>	<b>286</b>	<b>-</b>	<b>-</b>	<b>286</b>
Transaction costs	287	-	-	287
Manager Base and Incentive Fees	37,357	-	-	37,357
Remaining operating expenses	3,171	371	-	3,542
<b>Other Operating expenses</b>	<b>40,815</b>	<b>371</b>	<b>-</b>	<b>41,186</b>
<b>Total expenses</b>	<b>41,101</b>	<b>371</b>	<b>-</b>	<b>41,472</b>
<b>Net operating profit before taxation</b>	<b>193,027</b>	<b>371</b>	<b>(6,393)</b>	<b>186,263</b>
<b>Total tax expense</b>	<b>16</b>	<b>(16)</b>	<b>-</b>	<b>-</b>
<b>Net profit after taxation from continuing operations</b>	<b>193,011</b>	<b>(355)</b>	<b>(6,393)</b>	<b>186,263</b>
<b>Net profit after taxation from discontinued operations – Legacy investments</b>	<b>40,492</b>	<b>355</b>	<b>(40,847)</b>	<b>-</b>
<b>Net profit for the year</b>	<b>233,503</b>	<b>-</b>	<b>(47,240)</b>	<b>186,263</b>
<b>€ per share</b>	<b>3.92</b>	<b>-</b>	<b>(0.79)</b>	<b>3.13</b>
<i>Attributed to:</i>				
Italian Investments	189,753	16	(6,393)	183,376
Legacy Investments	43,750	(16)	(40,847)	2,887

The impact of the change to accounting method on the 2017 income statement as reported under IFRS is €6.4 million and relates to Real Estate Fund Investment II which was previously accounted for under the equity method at cost. The equivalent impact under the retrospective method would have been recognised in the previous year. In addition, the retrospective approach does not recognise €40.5 million of income arising from the deconsolidation of the CDO V portfolio, as the equivalent impact would have been recognised in the prior year given the investment would have been carried at a fair value of nil by virtue of its negative NAV and non-recourse liabilities. Outside of these timing related effects, all other differences reflect the reallocation of profit and loss items.

For the year ended 31 December 2017, the total net profit as reported under IFRS was €233.5 million, or €3.92 per share. Applying the accounting change on a retrospective basis results in net profit of €186.3 million, or €3.13 per share, of which €58.2 million, or €1.01 per share relates to the fourth quarter.

## NORMALISED FFO

Normalised FFO (“NFFO”) is a non-IFRS financial measure that, with respect to all of the Company’s Italian Investments other than the doBank Group, recognises i) income on an expected yield basis updated periodically, allowing Eurocastle to report the run rate earnings from these investments in line with their expected annualised returns and ii) any additional gains or losses not previously recognised through NFFO at the point investments are realised. Cash flow receipts are therefore allocated by the Company between income and capital in accordance with this expected yield methodology. With respect to the doBank Group, following the IPO, the Company now recognises NFFO based on its share of doBank’s reported annual net income after tax together with any gains or losses arising from the sale of its shares. The income cash flow profile of each of the Company’s investments may not exactly equal the NFFO recognised by the Company each period but will do so over the life of each investment.

Unrealised gains or losses as typically reported in the financial statements under IFRS do not affect NFFO but impact the Company’s asset valuations and therefore its Net Asset Value in the period in which the relevant valuation movement is recognised. Accordingly, while the quantum of NFFO recognised in any period may differ from the corresponding fair value movements recognised in the Company’s financial statements in the same period, over the total life of an investment NFFO will always equal the total profit recorded in the Company’s financial statements.

The measure is also used as the basis to determine the Manager’s entitlement to receive incentive compensation, with the base upon which such an amount is determined equal to the net invested capital of the Company’s Italian Investments and calculated against the NFFO for Italian Investments after allocated corporate costs<sup>21</sup>. It should be noted that, given NFFO is recognised on a level yield basis for investments which are not realised, there is a difference between the incentive compensation which is currently accrued on the Company’s balance sheet and that which would be due from the Company should all investments immediately be realised at their current reported unrealised asset values. As of 31 December 2017, the difference would be an additional €47.9 million, or €0.91 per share.

### SEGMENTAL NORMALISED FFO FOR THE YEAR ENDED 31 DECEMBER 2017

	Average Net Invested Capital <sup>22</sup>		Italian Investments	Legacy	Total
	€ Thousands	Yield			
doBank Group	126,232	79%	99,220	-	99,220
Italian NPLs	104,689	16%	17,027	-	17,027
Real Estate Fund Investments	44,707	58%	25,837	-	25,837
Other <sup>23</sup>	n/a	n/a	7,247	-	7,247
<b>Italian Investments NFFO before expenses</b>	<b>275,628</b>	<b>54%</b>	<b>149,331</b>	<b>-</b>	<b>149,331</b>
Legacy Portfolios NFFO before expenses			-	3,258	3,258
Manager Base & Incentive Fees <sup>21</sup>			(37,357)	-	(37,357)
Other operating expenses			(3,744)	(371)	(4,115)
<b>Normalised FFO for the year</b>			<b>108,230</b>	<b>2,887</b>	<b>111,117</b>
<i>Per Share</i>			1.82	0.04	1.86

Before corporate costs, Italian Investments generated €149.3 million, or €2.51 per share, of which €82.0 million, arose from the doBank IPO in the third quarter and a further €20.4 million from two disposals in the first half of 2017. These significant and non-recurring realisations have therefore greatly contributed towards the Manager Base and Incentive fees accrued in the year of €37.4 million. Net of all expenses and taking into account the NFFO recognised on the disposals of the remaining Legacy assets that took place in the first half of 2017, NFFO for the period was €111.1 million, or €1.86 per share.

The following table provides a reconciliation of net profit and loss as reported in the segmental income statement provided on page 10 to segmental Normalised FFO:

### NET PROFIT TO NORMALISED FFO RECONCILIATION

	doBank Group	Italian NPLs	Real Estate Fund Investments	Other	Italian Investments	Legacy	Corporate Expenses	Total
	€ Thousands	€ Thousands	€ Thousands	€ Thousands	€ Thousands	€ Thousands	€ Thousands	€ Thousands
Net Profit (Retrospective)	193,526	14,641	10,896	5,414	224,477	2,887	(41,101)	186,263
Effective Yield Adjustments <sup>24</sup>	(94,306)	2,386	14,941	-	(76,979)	-	-	(76,979)
Other Adjustments	-	-	-	1,833	1,833	-	-	1,833
<b>Normalised FFO for the year</b>	<b>99,220</b>	<b>17,027</b>	<b>25,837</b>	<b>7,247</b>	<b>149,331</b>	<b>2,887</b>	<b>(41,101)</b>	<b>111,117</b>
<i>Per Share</i>	1.67	0.29	0.43	0.12	2.51	0.04	(0.69)	1.86

## DISTRIBUTION POLICY

In March 2017 the Company announced the adoption of a new policy with the goal of generating substantial liquidity to shareholders by accelerating distributions of Normalised FFO and surplus capital not invested.

The policy saw the establishment of a new three-part program with the intention to:

- i. continue to pay a regular quarterly dividend (currently set at €0.15 per share);
- ii. supplement this on a quarterly basis with undistributed NFFO realised in cash; and
- iii. supplement this on a semi-annual basis with 50% of the capital held by the Company at the previous half-year end that has not been invested or designated for investment in an opportunity being actively pursued at the time,

in each case all distributions being subject to the applicable legal requirements and reserves for working capital, distributions and expenses.

The supplemental distributions will take the form considered by the Directors to be in the best interests of the Company at the relevant time, and may be made in any manner available to the Board, including, among others, by way of increased dividends, returns of capital or share buybacks.

### Cash NFFO Dividends

During the fourth quarter of 2017, undistributed NFFO realised in cash amounted to €14.7 million reflecting i) €4.8 million of NFFO recognised and realised in cash in the period and ii) €9.9 million of undistributed NFFO previously recognised but received in the fourth quarter of 2017<sup>25</sup>. As a result, the total dividend for the fourth quarter of 2017 amounts to €0.27 per share. The dividend was declared on 20 March 2018 and will be paid on 5 April 2018. The table below reconciles NFFO to total dividends declared for Q4 2017:

#### NFFO to Dividend Reconciliation

	Q4 2017	
	€ Thousands	€ Per Share
<b>Q4 2017 NFFO (reported)</b>	<b>7,821</b>	
Less: NFFO recognised in Q4 2017 not yet realised in cash	(3,054)	
Plus: Undistributed NFFO previously recognised in 9M 2017, realised in cash in Q4 2017	9,665	
Plus: 9M 2017 undistributed NFFO (due to rounding)	307	
<b>NFFO Realised in Cash available for Distribution</b>	<b>14,739</b>	<b>0.279</b>
Round down to nearest € 0.01 per share	(507)	(0.009)
<b>Total Q4 2017 Dividend</b>	<b>14,232</b>	<b>0.27</b>
<i>Of which:</i>		
Regular Dividend	7,907	0.15
Supplemental Dividend	6,325	0.12

In 2016, the Company recognised NFFO of €46.0 million and declared dividends of €33.1 million leaving €12.9 million of undistributed NFFO as of 31 December 2016. During 2017, the Company recognized NFFO of €111.1 million and has declared total dividends related to the period of €116.3 million. The 2017 dividends declared therefore includes amounts relating to 2017 and undistributed NFFO from 2016. As at 31 December 2017, the aggregate amount of undistributed NFFO was €7.7 million, or €0.15 per share which is intended to be distributed in accordance with the Company's policy in the period in which Eurocastle receives it in cash (subject to the applicable legal requirements and reserves for working capital, distributions and expenses).

#### Undistributed NFFO

	Q4 2017	
	€ Thousands	€ Per Share
Undistributed NFFO outstanding, recognised before Q4 2017	4,150	0.08
Undistributed NFFO outstanding, recognised in Q4 2017	3,561	0.07
<b>Total Undistributed NFFO</b>	<b>7,711</b>	<b>0.15</b>

## BALANCE SHEET AND ADJUSTED NAV RECONCILIATION AS AT 31 DECEMBER 2017

	Italian Investments € Thousands	Corporate € Thousands	Total € Thousands
<b>Assets</b>			
Cash and cash equivalents	-	121,481	121,481
Other assets	-	55	55
Investments:			
doBank Group	271,842	-	271,842
Romeo NPLs	48,712	-	48,712
FINO NPLs	43,451	-	43,451
Other NPL Pools	47,938	-	47,938
Real Estate Fund Investment I	11,119	-	11,119
Real Estate Fund Investment II	13,131	-	13,131
Real Estate Fund Investment IV	198	-	198
Real Estate Fund Investment V	5,514	-	5,514
Other net assets of subsidiaries (residual legacy entities)	-	148	148
<b>Total assets</b>	<b>441,905</b>	<b>121,684</b>	<b>563,589</b>
<b>Liabilities</b>			
Trade and other payables	-	3,852	3,852
Manager Base and Incentive Fees	-	3,218	3,218
<b>Total liabilities</b>	<b>-</b>	<b>7,070</b>	<b>7,070</b>
<b>Net Asset Value</b>	<b>441,905</b>	<b>114,614</b>	<b>556,519</b>
FINO Deferred Purchase Price Commitment	64,680	(64,680)	-
FINO follow-on Commitment	8,440	(8,440)	-
RE Fund Investment V remaining unfunded Commitment	795	(795)	-
<b>Adjusted NAV</b>	<b>515,820</b>	<b>40,699</b>	<b>556,519</b>
<i>Adjusted NAV (€ per Share)</i>	<i>9.79</i>	<i>0.77</i>	<i>10.56</i>

## CAPITAL STRUCTURE

On 19 October 2017, the Board announced a tender offer of €84 million to return the capital that had been received from the doBank IPO. The Board believe that the tender offer represented the most accretive and expeditious use of these proceeds through buying back shares at a discount to net asset value ("NAV") and returning capital to investors seeking liquidity at an attractive premium to the prevailing share price. On 22 November 2017, Eurocastle repurchased 8.4 million, or 13.75%, of voting shares in issue at a price of €10.00 per share for a total cost of €84.2 million. The repurchase has been accretive both to earnings as well as the balance sheet, increasing pro forma NFFO per share by 15% and Q3 Adjusted NAV per share by 1%.

## DIVIDENDS

Period	Date Declared	Date Paid	Declared in 2017		Paid in 2017		Relating to 2017	
			€ million	€ per share	€ million	€ per share	€ million	€ per share
Q4 2016	15/12/2016	31/01/2017	-	-	€ 9.0	€ 0.15	-	-
Q1 2017	16/03 and 18/05/2017	31/05/2017	€ 17.4	€ 0.29	€ 17.4	€ 0.29	€ 17.4	€ 0.29
Q2 2017	03/08/2017	31/08/2017	€ 25.1	€ 0.41	€ 25.1	€ 0.41	€ 25.1	€ 0.41
Q3 2017	28/11/2017	11/12/2017	€ 59.6	€ 1.13	€ 59.6	€ 1.13	€ 59.6	€ 1.13
Q4 2017	20/03/2018	05/04/2018	-	-	-	-	€ 14.2	€ 0.27
<b>Total</b>			<b>€ 102.1</b>	<b>€ 1.83</b>	<b>€ 111.1</b>	<b>€ 1.98</b>	<b>€ 116.3</b>	<b>€ 2.10</b>

## DIRECTORS

The Directors who have held office during the year were:

Randal A. Nardone  
 Claire Whittet<sup>26</sup>  
 Jason Sherwill<sup>26</sup>  
 Peter Smith  
 Simon J. Thornton<sup>26</sup>

## DIRECTORS INTERESTS

The interests of the Directors in the voting shares of Eurocastle are as follows:

	As at 31 December 2017	As at 31 December 2016
Randal A. Nardone <sup>27</sup>	1,026,859	1,026,859
Claire Whittet	2,000	1,000
Jason Sherwill	12,400	11,400
Peter Smith	-	-
Simon J. Thornton	10,547	9,547



## SUBSTANTIAL SHAREHOLDINGS

Per the shareholder register and as at 19 March 2018, the following shareholders had an interest in 3% or more of Eurocastle's share capital:

	% Holdings <sup>28</sup>
Nederlands Centraal Instituut Voor Giraal Effectenverkeer BV	51%
Euroclear Nominees Limited	36%
The Bank of New York (Nominees) Limited	6%

Eurocastle is subject to EU transparency rules as a result of its listing on an EU regulated market and, consequently, shareholders are required to notify Eurocastle and the relevant regulators of certain changes to the percentage of voting rights in Eurocastle held by them.

The shareholding above has been obtained from the share register. A number of individual shareholders have made a notification of exceeding the reporting thresholds per the Netherlands Authority for Financial Markets (AFM). These notifications can be found at the following website [www.afm.nl](http://www.afm.nl).

## AUDITORS

BDO LLP were re-appointed during the period and have expressed a willingness to continue in office.

## CORPORATE GOVERNANCE

The Directors have applied the principles of the Guernsey Code of Corporate Governance which came into effect from the 1 January 2012.

As a Guernsey incorporated company which is managed and controlled in Guernsey, Eurocastle Investment Limited is subject to the provisions of the UK City Code on Takeovers and Mergers.

## MANAGEMENT AGREEMENT

The Independent Directors have reviewed the continued appointment of the Manager. In carrying out the review, the Independent Directors considered the past performance of the Group and the capability and resources of the Manager to deliver satisfactory investment performance and have concluded that the continued appointment of the Manager is in the best interest of the shareholders.

## DIRECTORS' STATEMENTS AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 14. Having made enquiries of fellow Directors and of Eurocastle's auditors, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information (that is, information needed by the Group's auditors in connection with preparing their report) of which Eurocastle's auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that Eurocastle's auditors are aware of that information.

## GOING CONCERN

The Directors have prepared the financial statements on a going concern basis which requires the Directors to have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

The Directors have reviewed the Group's processes to control those risks to which the Group is exposed, as disclosed in note 3 to the consolidated financial statements, as well as reviewing the annual budget.

As a result of this review, the Directors do have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the consolidated financial statements.

## DIRECTORS' STATEMENTS PURSUANT TO THE DISCLOSURE AND TRANSPARENCY RULES

Each of the Directors as at 31 December 2017 (whose names are listed on page 14) confirms that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and loss of the Group and the undertakings included in the consolidation as a whole; and
- the Report of the Directors contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the financial statements in accordance with applicable Guernsey law and generally accepted accounting principles.

Guernsey Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year. In preparing these financial statements, the Directors should:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue its business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company website. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### **Registered Office**

Regency Court  
Gategny Esplanade  
St. Peter Port  
Guernsey  
GY1 1WW

*On behalf of the Board*



Simon J. Thornton  
Director and Audit Committee Chairman  
Date: 20 March 2018

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EUROCASTLE INVESTMENT LIMITED

### OPINION

We have audited the consolidated financial statements of Eurocastle Investment Limited and its subsidiaries (the "Group") for the year ended 31 December 2017 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity and notes to the consolidated financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Financial Statements is applicable law and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2017 and of the profit for the year then ended;
- have been properly prepared in accordance with IFRSs as issued by the IASB;
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### USE OF OUR REPORT

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the Financial Statements is not appropriate; or
- the directors have not disclosed in the Financial Statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in our audit
<p><i>Valuation, existence and ownership of investments</i></p> <p><i>Refer to note 9 (investments)</i></p> <p>The valuation of investments, in particular unlisted investments, requires significant judgement and estimates by management and is therefore considered a significant risk due to the subjective nature of certain assumptions inherent in each valuation.</p> <p>The investment portfolio at the year-end comprised of listed investments valued at €283 million and unlisted equity investments valued at €159 million.</p> <p>Any input inaccuracies or unreasonable bases used in the valuation judgements could result in a material misstatement of the income statement and balance sheet.</p> <p>There is also a risk that management may influence the significant judgements and estimates in respect of valuations in order to achieve valuation and other performance targets to meet market expectations.</p>	<p>We responded to this matter by testing the valuation, existence and ownership of 100% of the portfolio of investments. We performed the following procedures:</p> <p>In respect of listed investments (64% of the total portfolio) we have:</p> <ul style="list-style-type: none"> <li>• Checked that the year-end price has been agreed to externally quoted prices from reputable sources</li> <li>• Agreed the investment holdings to independently received third party confirmation from the custodian to confirm existence and ownership</li> </ul> <p>In respect of unlisted investments (36% of the total portfolio) we have:</p> <ul style="list-style-type: none"> <li>• Where available we obtained copies of the audited financial statements of the underlying investments and verified the fair value.</li> <li>• Utilised our own internal experts to evaluate the appropriateness of the valuation methodology used and the integrity of the valuation models</li> <li>• Re-performed the calculation of the investment valuations</li> <li>• For all investments acquired during the year we obtained and agreed all key agreements and contracts and considered whether these were accurately reflected in the valuation model</li> <li>• For existing investments we analysed changes in significant assumptions compared with assumptions audited in previous periods and vouched these to independent evidence, where available, including available industry data</li> <li>• Challenged the investment manager regarding significant judgements made and obtaining corroborating evidence where available</li> <li>• Agreed the investment holdings to independently received third party confirmation from the custodian or to the audited financial statements of the underlying investment to confirm existence, ownership and completeness</li> </ul>
<p><i>Completeness and accuracy of incentive fees paid to the investment manager</i></p> <p>The investment manager is entitled to an incentive fee calculated against Normalised Funds From Operations (NFFO). The investment manager is perceived to be in a unique position to be able to manipulate NFFO through its input into the valuation of the investment portfolio and its responsibility for calculating the incentive fee.</p>	<p>We responded to this matter by recalculating the incentive fee under the terms of the investment management agreement.</p> <p>In particular, we have:</p> <ul style="list-style-type: none"> <li>• Verified the amounts paid in the year to bank statements</li> <li>• Performed a recalculation of the incentive fee charged in the year</li> <li>• Obtained the NFFO calculations for each of the underlying investments and agreed the NFFO calculations to the valuations for each investment.</li> <li>• For each investment we have verified distributions received from investments in the year and recalculated the roll-forward of the net invested capital against which the performance hurdle rate is assessed.</li> </ul>

## OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below this level will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

### MATERIALITY

We determined materiality for the financial statements as a whole to be €6.5 million, which was set at 1.15% of total assets. This provides a basis for determining the nature and extent of our risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature and extent of further audit procedures.

We determined that total assets would be the most appropriate basis for determining overall materiality as we consider it to be one of the principal considerations for members of the company in assessing the financial performance of the Group.

We determined that for other account balances, classes of transactions and disclosures not related to the investment portfolio a misstatement of less than materiality for the financial statements as a whole could influence the economic decisions of users. We determined that materiality for these areas should be €0.74 million, which was set at 1.8% of total expenditure.

### PERFORMANCE MATERIALITY

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessment, together with our assessment of the Group's overall control environment, our judgment was that overall performance materiality for the Group should be 75% of materiality, namely €4.9 million.

### REPORTING THRESHOLD

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to the Committee all individual audit differences in excess of €130,000 as well as differences below this threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

## AN OVERVIEW OF THE SCOPE OF OUR AUDIT

We designed our audit by determining materiality and assessing the risks of material misstatements in the financial statements. In particular, we looked at where the Directors make subjective judgements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The Group operates solely through one segment, investments in Italy. The Group audit team performed all the work necessary to issue the Group audit opinions, including undertaking all of the audit work on the key risks of material misstatement.

## OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the Financial Statements and our auditor's report thereon. Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Company; or
- the Financial Statements are not in agreement with the accounting records; or
- we have failed to obtain all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

## RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement set out on page 17, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

A further description of our responsibilities for the audit of the Financial Statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## OTHER MATTERS WHICH WE ARE REQUIRED TO ADDRESS

Following the recommendation of the audit committee, we were appointed by the audit committee in November 2013 to audit the financial statements for the year ending 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement is five years, covering the years ending 31 December 2013 to 31 December 2017.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee



Daniel Taylor  
For and on behalf of BDO LLP  
Chartered Accountants and Recognised Auditor  
London  
20 March 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

## END NOTES

- <sup>1</sup> Amounts per share are calculated on the following basis: Q4 2017 Adjusted Net Asset Value (“Adjusted NAV”) – 52.7 million voting shares in issue; Q3 2017 Adjusted NAV - 61.1 million voting shares in issue; Q4 2017 NFFO – 57.5 million weighted average shares; Q3 2017 NFFO - 60.7 million weighted average shares and FY 2017 NFFO – 59.6 million weighted average shares. Q4 2017 & Q3 2017 dividends paid on 52.7 million voting shares; FY 2017 dividend per share represents the sum of the first, second, third quarter 2017 dividends (€1.83 per share) and €0.27 per share dividend for the fourth quarter 2017 declared in March 2018.
- <sup>2</sup> Adjusted NAV for Q4 is before deducting the fourth quarter dividend of €0.27 per share declared in March 2018.
- <sup>3</sup> Financials for 2016 are pro forma for the acquisition of 100% of the share capital of Italfondario S.p.A. and derecognition of the Romeo portfolio, as if these had been put in place on 1 January 2016.
- <sup>4</sup> Increase in collections assumes net collections for Italfondario for the 12 months ended 31 December 2016. Alternatively, it would be an increase of 3% if gross collections of Italfondario for the same period were applied.
- <sup>5</sup> In July 2017, the Company acquired a minority interest in a €14.4 billion GBV sub-pool of the €17.7 billion GBV FINO NPL portfolio sold by Unicredit S.p.A.. At completion of the acquisition, and following interim collections from the cut-off date, the sub-pool invested by the Company reduced to €13.2 billion GBV.
- <sup>6</sup> The Legacy business encompassed all investments owned by the Group prior to April 2013, the date at which the group re-strategised and started focusing on investments in Italian performing and non-performing loans and other credit receivables.
- <sup>7</sup> The doBank Group comprises Eurocastle’s interest in the recently publicly listed doBank S.p.A. and its subsidiaries.
- <sup>8</sup> Includes cash flows of €28.7 million from RE Fund Investment III, and €34.6 million from RE Fund Investment IV which were fully realised in 2017.
- <sup>9</sup> Comprises two investments which have both been fully realised.
- <sup>10</sup> €2.4 billion GBV net of tax write-off.
- <sup>11</sup> doBank retained a 5% interest in the Romeo NPL pool, while Eurocastle and other FIG affiliates jointly subscribed to the remaining 95%.
- <sup>12</sup> All percentage ownerships of doBank in this document exclude the 1.75 million of treasury shares doBank has retained as at 31 December 2017.
- <sup>13</sup> Includes €0.3 million of other assets & liabilities held within the structure.
- <sup>14</sup> Includes outsourcing fees relating to collection activities.
- <sup>15</sup> Represents the Company’s 47.5% interest in the loan pool.
- <sup>16</sup> Represents total unlevered collections received during 2017 versus underwriting projections for the same period.
- <sup>17</sup> Represents total unlevered collections received only on fully resolved claims versus underwriting, as at 31 December 2017. It does not reflect those portfolios acquired in 2017.
- <sup>18</sup> Of which €13.1 million generated and currently held at the level of the investment
- <sup>19</sup> Stratifications weighted by the NAV and ownership of each portfolio as at 31 December 2017
- <sup>20</sup> Represents expected liquidation date for Funds II and V. Maturity dates of these funds are Dec-19 and Dec-23 respectively.
- <sup>21</sup> Manager base fees are equal to the sum of (i) 1.5% of the Company’s Net Asset Value excluding Net Corporate Cash and (ii) 0.75% of the Company’s Net Corporate Cash calculated and paid monthly in arrears. Incentive fees are equal to 25% of the euro amount by which the Company’s NFFO derived from Italian Investments (net of allocable fees and expenses) exceeds the net amount invested in such investments multiplied by a simple interest rate of 8% per annum (calculated on a cumulative but not compounding basis).
- <sup>22</sup> Time weighted average of invested capital (net of any capital returned) over the relevant period.
- <sup>23</sup> Fully realised investments.
- <sup>24</sup> Adjusts all profit and loss movements recognized on the Italian investments to that which is derived from an effective yield methodology where income is calculated on an expected yield basis given actual and projected cash flows of each investment.
- <sup>25</sup> Includes €0.3 million of NFFO received in cash in prior to the fourth quarter of 2017, which has not been distributed due to rounding-down the dividend to the nearest 1 cent.
- <sup>26</sup> Independent directors.
- <sup>27</sup> Randal A. Nardone is a member of Fortress Operating Entity II LP which is the registered holder of 5,025 shares and as a result of this relationship he is interested in the shares owned by this entity or in some of such shares.
- <sup>28</sup> Percentages calculated on 52.7 million voting shares in issue (net of 13.4 million shares held in treasury).



## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

## CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
<b>Portfolio Returns</b>			
Fair value movement on Italian investments	4	217,102	150,912
Share of post tax profits from Italian investments	4	1,961	2,289
Gain on classification to an investment entity	4	6,393	-
Fair value movements on other net assets of subsidiaries	4	(1,088)	-
<b>Other income</b>			
Other income	5	2,379	542
Interest income		-	800
Gains / (losses) on foreign currency translation and other derivatives		7,381	(2,092)
Realised gain on paydown of loans and receivables		-	1,046
<b>Total income</b>		<b>234,128</b>	<b>153,497</b>
<b>Operating expenses</b>			
Interest expense		286	2,552
Other operating expenses	6	40,815	16,736
<b>Other expenses</b>			
Impairment losses		-	30,960
<b>Total expenses</b>		<b>41,101</b>	<b>50,248</b>
<b>Net operating profit before taxation</b>		<b>193,027</b>	<b>103,249</b>
<b>Taxation expense - current</b>		<b>16</b>	<b>276</b>
<b>Total tax expense</b>		<b>16</b>	<b>276</b>
<b>Profit after taxation from continuing operations</b>		<b>193,011</b>	<b>102,973</b>
<b>Profit after taxation from discontinued operations</b>	16	<b>40,492</b>	<b>72,417</b>
<b>Profit after taxation for the year</b>		<b>233,503</b>	<b>175,390</b>
<b>Attributable to:</b>			
Ordinary equity holders of the Company		233,537	175,077
Non-controlling interest		(34)	313
<b>Net profit after taxation</b>		<b>233,503</b>	<b>175,390</b>
<b>Earnings per ordinary share<sup>(1)</sup> from continuing operations</b>			
Basic and diluted		€ 3.24	€ 1.56
<b>Earnings per ordinary share<sup>(1)</sup> from discontinued operations</b>			
Basic and diluted		0.68	1.09
<b>Earnings per ordinary share<sup>(1)</sup></b>			
Basic and diluted	14	3.92	2.65

<sup>(1)</sup> Earnings per share is based on the weighted average number of shares in the year of 59,582,743 (31 December 2016: 66,087,627). Refer to note 14.

See notes to the consolidated financial statements which form an integral part of these financial statements.

**EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
<b>Net profit after taxation</b>	<b>233,503</b>	<b>175,390</b>
<b>Items that may or will be reclassified to profit or loss:</b>		
Amortisation of unrealised gains on available-for-sale securities reclassified to loans and receivables with movements released to the income statement <sup>(1)</sup>	780	2,313
Amortisation of novated swaps	-	(3)
Unrealised gain on available-for-sale securities <sup>(1)</sup>	414	525
<b>Total other comprehensive income</b>	<b>1,194</b>	<b>2,835</b>
<b>Total comprehensive profit for the year</b>	<b>234,697</b>	<b>178,225</b>
<b>Attributable to:</b>		
Ordinary equity holders of the Company	234,731	177,912
Non-controlling interest	(34)	313
<b>Total comprehensive profit for the year</b>	<b>234,697</b>	<b>178,225</b>

See notes to the consolidated financial statements which form an integral part of these financial statements.

There are no tax effects relating to the components disclosed in the consolidated statement of comprehensive income.

<sup>(1)</sup> With effect from 1 July 2017, the Company was classified as an investment entity as set out under IFRS 10. As a result of this change the Company was no longer required to prepare consolidated financial statements from 1 July 2017.

The unrealised gain on available-for-sale securities upto 30 June 2017 represents the gain on the mezzanine tranches of debt in Real Estate Fund Investment IV. Any subsequent movements are recognised through fair value in the income statement.

## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2017 €'000	As at 31 December 2016 €'000
<b>Assets</b>			
Cash and cash equivalents	7	121,481	109,078
Other assets	8	55	4,564
Investments	9	442,053	471,162
Investment property held for sale		-	1,970
Loans and receivables	11	-	11,207
Derivative assets		-	2,144
<b>Total assets</b>		<b>563,589</b>	<b>600,125</b>
<b>Equity and Liabilities</b>			
<b>Capital and reserves</b>			
Issued capital, no par value, unlimited number of shares authorised	15	1,992,810	1,992,810
Treasury shares	15	(115,026)	(36,935)
Accumulated loss		(1,321,265)	(1,457,826)
Net unrealised loss on available for sale securities reclassified to loans and receivables		-	(256)
Other reserves	17	-	9,724
<b>Total shareholders' equity</b>		<b>556,519</b>	<b>507,517</b>
Non-controlling interest		-	1,058
<b>Total equity</b>		<b>556,519</b>	<b>508,575</b>
<b>Liabilities</b>			
Trade and other payables	12	7,070	26,320
CDO bonds payable	13	-	60,454
Current taxation payable		-	4,776
<b>Total liabilities</b>		<b>7,070</b>	<b>91,550</b>
<b>Total equity and liabilities</b>		<b>563,589</b>	<b>600,125</b>

See notes to the consolidated financial statements which form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 20 March 2018 and signed on its behalf by:



Simon J. Thornton  
Director and Audit Committee Chairman

## EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

## CONSOLIDATED CASH FLOW STATEMENT

	Notes	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
<b>Cash flows from operating activities</b>			
Profit before taxation for the year - continuing operations		193,027	103,249
Profit before taxation for the year - discontinued operations	16	40,344	71,850
Adjustments for:			
Fair value movements on Italian investments	4	(217,102)	(150,912)
Share of post tax profits from Italian investments	4	(1,961)	(2,289)
Gain on classification to an investment entity	4	(6,393)	-
Fair value movement on other net assets of subsidiaries	4	1,088	-
Interest income		-	(702)
Interest expense		286	495
(Gain) / loss on foreign currency and other derivatives		(7,381)	2,092
Amortisation of discount on securities		-	(98)
Impairment losses		-	30,960
Gain on paydown		-	(1,046)
Movements on discontinued operations	16	(40,521)	(61,957)
<b>Total adjustments to profit for the year</b>		<b>(271,984)</b>	<b>(183,457)</b>
Increase in other assets		3,919	4,106
(Decrease) / increase in trade and other payables		(5,825)	1,961
<b>Movements in working capital</b>		<b>(1,906)</b>	<b>6,067</b>
Capital expenditures / tenant incentives		-	(2,226)
Proceeds from other derivatives		7,247	-
Proceeds from sale of investment properties		1,970	211,415
Cash impact of deconsolidation of property portfolios		-	(16,825)
Proceeds from prepayment and sales of loans and receivables (CDO V)		11,856	30,311
Acquisition of Italian investments	9	(70,226)	(16,765)
Disposal of Italian Investments	9	220,277	-
Cash distribution from Italian investments	9	109,572	25,335
Cash distribution from subsidiaries		3,165	-
Cash deconsolidated due to change in accounting policy		(15,963)	-
Interest received		158	866
Interest paid		(1,578)	(6,299)
<b>Cash movements from operating activities</b>		<b>266,478</b>	<b>225,812</b>
<b>Cash generated from operations</b>		<b>225,959</b>	<b>223,521</b>
Taxation paid		(2,566)	(3,669)
<b>Net cash flows from operating activities</b>		<b>223,393</b>	<b>219,852</b>
<b>Cash flows from financing activities</b>			
Repurchase of share capital net of costs		(84,201)	(75,270)
Dividends paid	18	(111,070)	(33,127)
Dividends paid to non-controlling interest		(464)	(590)
Repayment of CDO V bonds issued (discontinued operations)		(15,255)	(28,888)
Repayments of bank borrowings (discontinued operations)		-	(223,053)
<b>Net decrease in cash flows from financing activities</b>		<b>(210,990)</b>	<b>(360,928)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>12,403</b>	<b>(141,076)</b>
<b>Cash and cash equivalents, beginning of the year</b>	7	<b>109,078</b>	<b>250,154</b>
<b>Total cash and cash equivalents, end of the year</b>	7	<b>121,481</b>	<b>109,078</b>

See notes to the consolidated financial statements which form an integral part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital €'000	Other reserves €'000	Treasury shares €'000	Net unrealised gains/ (losses) €'000	Hedging reserves €'000	Accumulated loss €'000	Non-controlling interest €'000	Total equity €'000
<b>As at 1 January 2016</b>	<b>2,014,845</b>	<b>26,024</b>	<b>-</b>	<b>(3,094)</b>	<b>3</b>	<b>(1,599,809)</b>	<b>1,335</b>	<b>439,304</b>
Profit after taxation for the year	-	-	-	-	-	175,077	313	175,390
Other comprehensive income / (loss) for the year	-	-	-	2,838	(3)	-	-	2,835
<b>Total comprehensive income / (loss) for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,838</b>	<b>(3)</b>	<b>175,077</b>	<b>313</b>	<b>178,225</b>
<b>Contributions by and distributions to owners:</b>								
Repurchase of shares (note 15)	-	-	(75,270)	-	-	-	-	(75,270)
Shares cancelled (note 15)	(38,335)	-	38,335	-	-	-	-	-
Dividends to non-controlling interest	-	-	-	-	-	-	(590)	(590)
Release of option reserve for lapsed options (note 17)	16,300	(16,300)	-	-	-	-	-	-
Dividend declared (note 18)	-	-	-	-	-	(33,094)	-	(33,094)
<b>As at 31 December 2016</b>	<b>1,992,810</b>	<b>9,724</b>	<b>(36,935)</b>	<b>(256)</b>	<b>-</b>	<b>(1,457,826)</b>	<b>1,058</b>	<b>508,575</b>
Profit after taxation for the year	-	-	-	-	-	233,503	-	233,503
Other comprehensive income / (loss) for the year	-	-	-	1,194	-	-	(34)	1,160
<b>Total comprehensive income / (loss) for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,194</b>	<b>-</b>	<b>233,503</b>	<b>(34)</b>	<b>234,663</b>
<b>Contributions by and distributions to owners:</b>								
Shares issued to Directors from treasury shares (note 15)	-	-	18	-	-	(18)	-	-
Shares issued from treasury shares upon exercise of share options (note 17)	-	-	6,093	-	-	(6,093)	-	-
Repurchase of shares (note 15)	-	-	(84,202)	-	-	-	-	(84,202)
Release of other reserves upon exercise of share options (note 17)	-	(9,724)	-	-	-	9,724	-	-
Dividends to non-controlling interest	-	-	-	-	-	-	(464)	(464)
Dividend declared (note 18)	-	-	-	-	-	(102,053)	-	(102,053)
Impact of prospective change in accounting policy (note 2)	-	-	-	(938)	-	1,498	(560)	-
<b>As at 31 December 2017</b>	<b>1,992,810</b>	<b>-</b>	<b>(115,026)</b>	<b>-</b>	<b>-</b>	<b>(1,321,265)</b>	<b>-</b>	<b>556,519</b>

## 1. BACKGROUND

Eurocastle Investment Limited ("Eurocastle", the "Company") was incorporated in Guernsey, Channel Islands on 8 August 2003 and commenced its operations on 21 October 2003. Eurocastle is a Euro denominated Guernsey closed-end investment company listed on Euronext Amsterdam (formerly listed on the London Stock Exchange). Eurocastle is subject to EU transparency rules as a result of its listing on an EU regulated market and, consequently, shareholders with a holding of 3% or more of the issued share capital in the Company are required to notify Eurocastle and the relevant regulators of certain changes to the percentage of voting rights in Eurocastle held by them.

The activities of the Company include investing directly or indirectly in Italian performing and non-performing loans ("PLs" / "NPLs") and other credit receivables, Italian loan servicing platforms, real estate related assets and other related businesses in Italy.

Eurocastle is externally managed by its investment manager, FIG LLC (the "Manager"). The Manager was acquired by Softbank Group Corp (9984: Tokyo) ("Softbank") on December 27, 2017 and operates as an independent business within Softbank under the continuing leadership of Pete Briger, Wes Edens and Randal Nardone. Eurocastle has entered into a management agreement (the "Management Agreement") under which the Manager advises the Company on various aspects of its business and manages its day-to-day operations, subject to the supervision of the Company's Board of Directors. For its services, the Manager receives an annual management fee and incentive compensation (as well as reimbursement for expenses, including expenses of certain employees providing asset management and finance services), as described in note 19. The Company has no ownership interest in the Manager.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") on a going concern basis and under the historical cost convention, except for investments at fair value through profit and loss, which are measured at fair value.

### Subsidiaries

De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the Company considers all relevant facts and circumstances, including: (i) the size of the Company's voting rights relative to both the size and dispersion of other parties who hold voting rights, (ii) substantive potential voting rights held by the Company and by other parties, (iii) other contractual arrangements, (iv) historic patterns in voting attendance.

The Company deconsolidates its investment in a subsidiary when it loses control of the subsidiary. The assets and liabilities of the subsidiary are derecognised from the consolidated balance sheet and a gain or loss associated with the loss of control attributable to the former controlling interest is recognised in the consolidated income statement.

### Use of judgements and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. Refer to note 9.

### Change in accounting policy and disclosure

The accounting policies adopted are consistent with those of the previous financial year except as follows:

Over time, the Company has disposed of its legacy real estate business and legacy debt portfolio. In conjunction with this, the Board of Directors of the Company has periodically assessed whether it met the definition of an investment entity as set out under IFRS 10. With the deconsolidation of the final legacy investment, Duncannon CRE CDO 1 Plc ("CDO V") in Q2 2017, the Board came to the conclusion that the Company, with effect from 1 July 2017, met the requirements to be classified as an Investment Entity as set out under IFRS 10. All subsidiaries previously consolidated up to 30 June 2017, were deconsolidated on 1 July 2017 as if they had been disposed of at this date. The impact of this change is that all investments, whether through subsidiaries, associates or joint ventures, are fair valued through profit and loss. This change has been applied prospectively as from 1 July 2017. The consequence of this change is that the income statement represents six months of consolidated results up to 30 June 2017 and six months of stand alone Company results from 1 July 2017, when the Company was classified as an investment entity.

The Board also concluded that none of the Company's subsidiaries provide investment management related services as set out under IFRS 10 and as a result of the amendment to IFRS 10, effective 1 January 2016, the Company would no longer be required to prepare consolidated financial statements from 1 July 2017, being the date of classification to an investment entity. As from 1 January 2018, the separate financial statements of the Company will be its only financial statements. Whilst the financial statements are presented as consolidated, the balance sheet as at 31 December 2017 presents the Company only balance sheet.

### Fair value movements on investments

Fair value movements on investments includes revaluation gains and losses from the underlying investments. The Company's investments comprise of NPLs/PLs, the doBank Group, real estate fund units and intermediate holding companies (refer to note 9).

### Other income

Other income relates to sales fees recognised in relation to the sale of assets from legacy real estate portfolios.

### Interest expense

Interest expense on Euro corporate cash deposits are recognised in the income statement on an accrual basis.

### Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand with an original maturity of three months or less.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Foreign currency translation**

The presentation currency and the functional currency of the Company is the Euro. Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

**Share-based payments**

Equity settled share-based payments are accounted for based on their fair value on grant date. The fair value is calculated by reference to an option pricing model. The fair value of the share options granted in relation to capital raises has been fully recognised (vested) on the date of grant as a cost relating to the issue of shares with a corresponding increase to other reserves.

Shares granted to Directors are recognised in the income statement over the period that the services are received.

**Capital and reserves**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity via the reserves as a deduction from the issue proceeds.

Where the Company purchases the Company's own equity shares (treasury shares - see note 15), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs, is included in equity attributable to the Company's equity holders.

**Dividends**

Dividends are recognised when they become legally payable. In the case of interim and final dividends to equity shareholders, this is when declared and approved by the board of directors.

**Financial Instruments****Recognition**

A financial asset or liability is recognised on the date the Company becomes party to contractual provisions of the instrument.

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

**Classification****Financial Assets**

Financial assets held at fair value through profit or loss are investments that are initially recognised at fair value with any subsequent movements in fair value recognised in the income statement.

**Financial liabilities**

Financial liabilities are composed of trade and other payables.

Unless otherwise indicated, the carrying amounts of the Company's financial liabilities are a reasonable approximation to their fair value.

**Derecognition of financial assets and liabilities****Financial assets**

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*****Financial liabilities***

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognised in the income statement. Where the loan terms are not considered substantially different the original liability is not derecognised and any additional costs are amortised over the remaining term of the loan.

**New standards and interpretations not yet applied****IFRS 9 "Financial instruments"**

IFRS 9 specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items.

On 24 July 2014, the IASB issued the final version of IFRS 9 "Financial Instruments" which supersedes all previous versions of the standard. The standard has a mandatory effective date for annual periods beginning on or after 1 January 2018. The Company does not deem the impact of the change to be significant, as the majority of the Company's financial instruments are held at fair value through profit or loss.

**IFRS 15 "Revenue from contracts with customers"**

IFRS 15 establishes the principles that an entity applies when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer. Applying IFRS 15, an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with earlier application permitted. The Company does not have any revenue from contracts with customers and therefore considers that this standard will not have a material impact on the financial statements of the Company.

**IFRS 16 "Leases"**

The objective of IFRS 16 is to report information that (a) faithfully represents lease transactions and (b) provides a basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. To meet that objective, a lessee should recognise assets and liabilities arising from a lease.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted (as long as IFRS 15 is also applied). The Company does not have any leases and therefore considers that this standard will not have a material impact on the financial statements of the Company.



### 3. FINANCIAL RISK MANAGEMENT

#### Alternative Investment Fund Managers Directive ("AIFMD") Leverage

The AIFMD prescribes two methods of measuring and expressing leverage and requires disclosure of the maximum amount of leverage the Company might be subject to. The definition of leverage is wider than that of gearing and includes those assets on balance sheet that are subject to market based valuation changes. For the purposes of AIFMD reporting, leverage is the ratio between the fair value of the assets under management and the net asset value of the Company. The ratio is required to be calculated on a gross basis and a commitment basis, under the European Commission's Delegated Regulation (commonly known as the Level 2 Regulation). The gross basis does not take into account any netting or hedging, whereas the commitment basis takes into account both netting and hedging. As at 31 December 2017, the leverage (as defined by this measure) under the gross and commitment basis was 79.44% and 79.44% respectively (31 December 2016: 98.3% and 96.3%).

#### Risk Management

This section provides details of the Company's exposure to risk and describes the methods used by the Company to control risk. The most important types of financial risk to which the Company is exposed are market and liquidity risk.

#### Capital Risk Management

The Company's capital is represented by ordinary shares with no par value and which carry one vote each. The shares are entitled to dividends when declared. The Company has no additional restrictions or specific capital requirements on the issuance and re-purchase of ordinary shares. The movements of capital are shown in the statement of changes in equity.

In order to meet the Company's capital management objectives, the Manager and the Board monitor and review the broad structure of the Company's capital on an ongoing basis. This review includes:

- Working capital requirements and follow-on investment capital for portfolio investments, including calls from funds;
- Capital available for new investments;
- The distribution policy.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to achieve positive returns in all market environments. In order to maintain or adjust the capital structure, the Company may return capital to shareholders through the issue and repurchase of voting shares and / or capital distribution. The effects of the issue, repurchase and resale of treasury shares are listed in note 15. Liberum Capital Limited acts as the Company's nominated adviser and broker. The Company established a distribution policy in 2017 which, in addition to share buybacks includes payment of a regular dividend and other forms of capital distribution.

At 31 December 2017, the Company had net equity of €556.5 million (31 December 2016: €508.6 million) and no direct leverage (31 December 2016: no direct leverage).

#### Credit Risk

Credit risk is the risk of the financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents. As at 31 December 2017, the Company's cash and cash equivalents was €121.5 million (31 December 2016: €109.1 million).

#### Banking arrangements

The Company's banking arrangements are with major financial institutions with investment grade credit ratings with which the Company and its affiliates may also have other financial relationships. While it is not anticipated that any of these counterparties will fail to meet their obligations, there is no certainty in current market conditions that this will be the case. As at 31 December 2017, the Company has placed €65.8 million of its corporate cash with a financial institution rated long term stable: A+ by Fitch; A3 by Moody's; and BBB+ by S&P (31 December 2016: €66.0 million - rated long term stable: A+ by Fitch; Baa1 by Moody's; and BBB+ by S&P). As at 31 December 2017, the remaining corporate cash was held with a financial institution rated long term stable: A by Fitch; A1 by Moody's; and A by S&P (31 December 2016: rated long term stable: A by Fitch; A1- by Moody's; and A- by S&P). The Company monitors on a regular basis the credit worthiness of the various financial institutions to mitigate credit risk exposure with respect to its banking arrangements.

**3. FINANCIAL RISK MANAGEMENT (CONTINUED)****Market Risk**

Market risk encompasses the following macro-economic and political risks:

***Macro-economic and political risks***

The value of the Company's investments in its Italian loan portfolio, servicing businesses and real estate is dependent on macroeconomic and political conditions prevailing in Italy. A decline in the Italian economy may have an adverse impact on the Company's returns on such investments.

In December 2016, Italian voters rejected a referendum put forward by the Democratic Party to reform the Constitution, leading to the resignation of the Prime Minister. The Italian referendum followed a vote by the United Kingdom in June 2016 to leave the European Union. The result of this referendum created significant uncertainty with regard to the short- and long-term political and economic prospects of the European Union. The process by which the United Kingdom will leave the European Union and the prospect of other countries in the European Union holding a similar referendum to leave the EU or the Eurozone could have a significant negative impact on international markets including falls in stock market indices, fluctuations in currency markets and volatility in asset values.

The failed referendum in Italy has led to a period of political uncertainty in Italy coupled with the emergence of "Eurosceptic" populist political parties. In March 2018, general elections were held in Italy, with no single party achieving the required majority to form a government. The elections also saw a marked increase in the share of the vote won by these populist parties. At the date of this report no government or prime minister has been appointed

The instability in the geopolitical environment could therefore have a material impact on financial activities both at market and retail level. A deterioration of the Italian economy may affect the recoveries the Company expects on its investments. At the same time, it could affect investor demand in general for these types of investments. While the expected yield on these portfolios is sensitive to the performance of the underlying assets, the value at which these investments are held by the Company is sensitive to the market yields at which they trade. Refer to note 9 for details of sensitivity analysis on the Italian investments.

The Company is subject to risk with respect to its investments in Italian loans by virtue of the risk of delinquency, foreclosure, speed of foreclosure proceedings and loss on the loans underpinning the securities in which the Company invests and manages.

Italian bankruptcy laws and other laws and regulations governing creditors' rights in Italy may offer significantly less protection for creditors than the bankruptcy regime in other jurisdictions, thus affecting the recoveries the Company would anticipate to receive on its Italian loan investments. The Company has taken steps to mitigate this exposure putting in place a structure to bid on certain assets which are auctioned by the Italian courts, following recovery orders, to preserve NPL recoveries.

Furthermore, the Company also seeks to maximise recoveries with respect to its Italian loan investments by agreeing collection strategies with the servicer of the claims through an agreed upon annual business plan with approval required on resolutions that deviate from that plan (subject to certain thresholds).

As at 31 December 2017, the Group had a 25.6% interest in the doBank Group, an NPL servicing business. In July 2017, the group sold a significant portion of its holding through the initial public offering of the doBank Group. UniCredit S.p.A. (long term credit rating: BBB by Fitch; Baa1 by Moody's; and BBB- by S&P) comprises 23% of doBank's assets under management as at 31 December 2017. The current and future performance of doBank relies to a certain extent on UniCredit S.p.A in relation to existing revenues generated on collections in respect of portfolios managed on their behalf together with the provision of a certain amount of future flow of NPLs under a servicing agreement.

***Interest rate risk***

The Company's interest rate risk is not considered to be significant. The Company is exposed to interest rates on banking deposits held in the ordinary course of business. Management monitors this risk on a continuous basis.

***Foreign Currency Risk***

The majority of the Company's assets and liabilities are denominated in Euros. The Company's foreign currency risk is not considered to be significant.

***Liquidity Risk***

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to support the business and to maximise shareholder value.

Eurocastle's liquidity is primarily generated by distributions from its Italian Investments. The Company expects that its cash in hand and cash flow provided by operations will satisfy its liquidity needs over the next twelve months.

***Operational Risk***

The Company has a significant interest in the doBank Group comprising a NPL servicing business. In July 2017, the doBank Group was listed on the Milan stock exchange. The doBank Group is subject to corporate governance requirements due to its listing. The doBank Group employs an experienced management team and loan servicing teams to carry out the daily operational tasks associated with the business. Loss of one or more key members of staff may have an adverse operational impact on the business of doBank. The loan servicing business is reliant upon IT and other operational and reporting systems. Any system disruptions and failures may interrupt or delay doBank's ability to service loans. The management team of doBank regularly reviews its operational risks and has appropriate compensation and contingency plans in place to mitigate these risks.

**4. PORTFOLIO RETURNS**

Movements on investments are summarised below:

	Year ended 31 December 2017				Year ended 31 December 2016		
	Share of post tax profits <sup>(1)</sup> €'000	Fair value movements €'000	Gain on classification to investment entity €'000	Total Portfolio returns €'000	Share of post tax profits/ (losses) €'000	Fair value movements €'000	Total Portfolio returns €'000
doBank Group (note 9)	-	193,526	-	193,526	-	107,008	107,008
NPLs/PLs (note 9)	1,335	13,306	-	14,641	3,809	16,492	20,301
Real Estate Funds (note 9)	626	10,270	6,393	17,289	(1,520)	27,412	25,892
<b>Portfolio returns on Italian investments</b>	<b>1,961</b>	<b>217,102</b>	<b>6,393</b>	<b>225,456</b>	<b>2,289</b>	<b>150,912</b>	<b>153,201</b>
Fair value movements on other net assets of subsidiaries	-	(1,088)	-	(1,088)	-	-	-
<b>Total portfolio returns</b>	<b>1,961</b>	<b>216,014</b>	<b>6,393</b>	<b>224,368</b>	<b>2,289</b>	<b>150,912</b>	<b>153,201</b>

With effect from 1 July 2017, the Company has been classified as an investment entity. Investments which were previously equity accounted for, have been reclassified at fair value through profit and loss from 1 July 2017. For these investments, the income statement includes six months of its share of profit from equity accounting and six months of fair value movements from the date of change. The total impact of the change was €6.4 million, which related to Real Estate Fund Investment II.

The change in accounting treatment of the NPLs/PLs which were previously equity accounted for, did not impact the income statement as the share of post tax profits was in line with the fair value movements of those investments.

- (1) Share of post tax profit from investments, which were previously equity accounted for, up to 30 June 2017. With effect from 1 July 2017, these investments were fair valued through profit and loss.

**5. OTHER INCOME**

During the year ended 31 December 2017, other income of €2.4 million (31 December 2016: €5.6 million, of which €5.1 million was previously eliminated on consolidation) relates to sales fees recognised in relation to the sales of assets that completed within the legacy real estate portfolios.

The sales fees received by the Company relate to an arrangement agreed with the lender to the portfolio whereby the Company benefited from 3.5% of gross sales proceeds.

**6. OTHER OPERATING EXPENSES**

	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
Professional fees	547	983
Transaction costs	287	1,205
Manager base and incentive fees (note 19)	37,357	12,093
Manager recharge (note 19)	1,469	1,426
Depreciation on fixtures and fittings	-	3
General and administrative expenses	1,155	1,026
<b>Total other operating expenses</b>	<b>40,815</b>	<b>16,736</b>

**7. CASH AND CASH EQUIVALENTS**

	As at 31 December 2017 €'000	As at 31 December 2016 €'000
Corporate cash at Company level	121,481	94,925
Cash within subsidiaries under Italian Investments	-	4,553
Cash within the real estate operating companies (discontinued operations)	-	6,704
Cash within the legacy debt business	-	2,896
<b>Total cash and cash equivalents</b>	<b>121,481</b>	<b>109,078</b>

## 8. OTHER ASSETS

	As at 31 December 2017 €'000	As at 31 December 2016 €'000
Prepaid expenses	55	89
Service charge receivable	-	481
Proceeds receivable from the disposal of investment properties	-	150
Interest receivable	-	21
Rent receivable	-	143
Other accounts receivable	-	3,680
<b>Total other assets</b>	<b>55</b>	<b>4,564</b>

All other assets are expected to mature in less than one year.

## 9. INVESTMENTS

The Company directly or indirectly holds the following investments:

	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
Italian investment portfolio	441,905	471,162
Other net assets of subsidiaries (residual legacy entities)	148	-
<b>Total investments</b>	<b>442,053</b>	<b>471,162</b>

With effect from 1 July 2017, the Company has been classified as an investment entity. As a result, investments which were previously equity accounted for, have been reclassified at fair value through profit and loss from 1 July 2017. The total impact of the change was €6.4 million at the date of reclassification.

As at 31 December 2017, the movements in the Italian investment portfolio were as follows:

	doBank Group		NPLs / PLs		Real Estate Funds			Total Investments €'000
	Fair value accounted €'000	Equity accounted €'000	Fair Value accounted €'000	Total NPLs/PLs €'000	Equity accounted €'000	Fair Value accounted €'000	Total Real Estate Funds €'000	
<b>Balance as at 1 January 2017</b>	<b>264,741</b>	26,335	110,033	<b>136,368</b>	10,940	59,113	<b>70,053</b>	<b>471,162</b>
Additions	-	-	65,121	<b>65,121</b>	4,067	846	<b>4,913</b>	<b>70,034</b>
Disposals	<b>(166,103)</b>	-	-	-	-	(54,176)	<b>(54,176)</b>	<b>(220,279)</b>
Transfer	<b>4,945</b>	-	(4,945)	<b>(4,945)</b>	-	-	-	-
Distributions received	<b>(25,312)</b>	(3,562)	(68,250)	<b>(71,812)</b>	(1,158)	(6,231)	<b>(7,389)</b>	<b>(104,513)</b>
Other net assets	<b>45</b>	-	730	<b>730</b>	-	282	<b>282</b>	<b>1,057</b>
Share of profits to 30 June 2017	-	1,335	-	<b>1,335</b>	626	-	<b>626</b>	<b>1,961</b>
Change due to classification as an investment entity	-	(24,108)	24,108	-	(14,475)	20,868	<b>6,393</b>	<b>6,393</b>
Fair value movement	<b>193,526</b>	-	13,306	<b>13,306</b>	-	10,270	<b>10,270</b>	<b>217,102</b>
Fair value movement recognised via discontinued operations	-	-	-	-	-	(1,012)	<b>(1,012)</b>	<b>(1,012)</b>
<b>Balance as at 31 December 2017</b>	<b>271,842</b>	-	<b>140,103</b>	<b>140,103</b>	-	<b>29,960</b>	<b>29,960</b>	<b>441,905</b>

As at 31 December 2016, the movements in the Italian investment portfolio were as follows:

	doBank Group		NPLs / PLs		Real Estate Funds <sup>(1)</sup>			Total Investments €'000
	Fair value accounted €'000	Equity accounted €'000	Fair Value accounted €'000	Total NPLs €'000	Equity accounted €'000	Fair Value accounted €'000	Total Real Estate Funds €'000	
<b>Balance as at 1 January 2016</b>	<b>157,733</b>	23,753	103,158	<b>126,911</b>	12,160	29,689	<b>41,849</b>	<b>326,493</b>
Adjustment to cost	-	-	-	-	-	(410)	<b>(410)</b>	<b>(410)</b>
Additions	-	4,440	-	<b>4,440</b>	300	12,025	<b>12,325</b>	<b>16,765</b>
Disposals	-	-	-	-	-	-	-	-
Distributions received	-	(5,667)	(9,617)	<b>(15,284)</b>	-	(10,128)	<b>(10,128)</b>	<b>(25,412)</b>
Fair value movement on available-for-sale securities	-	-	-	-	-	525	<b>525</b>	<b>525</b>
Share of profit / (loss)	-	3,809	-	<b>3,809</b>	(1,520)	-	<b>(1,520)</b>	<b>2,289</b>
Fair value movement	<b>107,008</b>	-	16,492	<b>16,492</b>	-	27,412	<b>27,412</b>	<b>150,912</b>
<b>Balance as at 31 December 2016</b>	<b>264,741</b>	<b>26,335</b>	<b>110,033</b>	<b>136,368</b>	<b>10,940</b>	<b>59,113</b>	<b>70,053</b>	<b>471,162</b>

<sup>(1)</sup> Includes two mezzanine tranches of debt in Real Estate Fund Investment IV, previously disclosed as available-for-sale securities.

Refer to the portfolio summary for further details on investments on page 35.

**9. INVESTMENTS (CONTINUED)****Portfolio summary**

With effect from 1 July 2017, the Company has been classified as an investment entity. As a result, all of the Company's investments are now held at fair value through profit and loss from 1 July 2017.

The Company's investments are categorised as follows:

- I.** doBank Group
- II.** NPLs/ PLs
- III.** Real Estate Funds

**I. doBank Group:**

On 30 October 2015, the Company indirectly acquired a 50% equity interest in doBank S.p.A. (formerly Unicredit Credit Management Bank S.p.A ("UCCMB")), comprising an NPL servicing business and an NPL pool for a consideration of approximately €246 million, subject to certain post-closing adjustments.

The investment in the doBank Group is held through a joint venture in a Luxembourg company, Avio S.à.r.l.

On 31 December 2016, the doBank Group's NPL pool was transferred to Romeo SPV Srl. The Company indirectly holds a 47.5% economic interest in this entity, while the doBank Group holds a 5% economic interest. This NPL pool is now referred to as the "Romeo NPLs".

On 14 July 2017, doBank completed its initial public offering through which, the Company sold approximately 48.8% of its shareholding. The Company, together with other Fortress affiliates, retains a joint 51.2% interest in the outstanding shares (excluding 1.75 million of treasury shares) of doBank. doBank is listed on the Milan Stock Exchange.

**II. NPLs / PLs**

The Company holds investments in 22 pools of NPLs / PLs. These are further categorised into three sub-categories as listed below:

- Romeo NPLs
- FINO NPLs
- Other NPLs / PLs

**Romeo NPLs:**

The Company's 47.5% interest in the Romeo NPLs is held indirectly via a joint venture entity incorporated in Delaware.

**FINO NPLs:**

In July 2017, the Company acquired a minority interest in a €14.4 billion GBV sub-pool of the €17.7 billion FINO NPL portfolio sold by Unicredit S.p.A.. At completion of the acquisition, and following interim collections from the cut-off date, the sub-portfolio had reduced to €13.2 billion GBV and was split into two Italian securitisation vehicles, FINO 1 (€5.4 billion GBV) and FINO 2 (€7.8 billion GBV). The transaction included the indirect acquisition by Eurocastle of an equal portion of all of the notes of these two Italian securitisation vehicles, as well as the provision of certain services to the vehicles. The transaction terms include a deferred purchase price mechanism under which further amounts are payable over the next few years up to an amount of €64.7 million which is expected to be funded by collections on the portfolio.

**Other NPLs / PLs :**

The Company holds interests across 20 smaller seasoned pools with a combined GBV of €6.9 billion. The interest in these pools range from 25% to 80.66% and are held through subsidiaries, joint ventures and associates incorporated in Italy, Luxembourg and United States of America.

During 2017, the Company acquired interests in a NPL and a PL pool (pools 19 and 20). In November 2017, the Company acquired a shared interest in a NPL pool (pool 19) with a GBV of €293 million. In December 2017, the Company acquired a share of a leveraged interest in a performing and sub performing loan portfolio (pool 20) with a GBV of €234 million. As with other NPLs/ PLs, the investments were acquired via joint ventures and associate entities incorporated in the United States of America.

All NPLs / PLs are serviced by the doBank Group (refer to note 19).

**III. Real Estate Funds**

The Company has the following Real Estate Fund investments:

**Real Estate Fund Investment I:**

On 28 March 2014, the Company indirectly purchased 11,929 units in UniCredito Immobiliare Uno closed-end Real Estate Fund ("Real Estate Fund Investment I"). The holding represents 7.46% of the total units issued by Real Estate Fund Investment I. The units are listed on the Italian Stock Exchange. Real Estate Fund Investment I is managed by Torre SGR S.p.A. ("Torre"), an affiliate of the Manager.

**Real Estate Fund Investment II:**

On 22 July 2014, the Company indirectly invested in a newly established real estate development fund (Real Estate Fund Investment II) which purchased two office buildings in Rome for redevelopment into high-end residential properties for resale. The Company's investment is held through a joint venture in Torre Real Estate Fund III Value Added – Sub fund A ("RE Torre Fund"). Real Estate Fund Investment II is managed by Torre, an affiliate of the Manager.

**9. INVESTMENTS (CONTINUED)****Real Estate Fund Investment III:**

In September 2015, the Company acquired 27.1% of the units in an unlisted Italian mixed-use real estate fund for a total cost of €10.7 million.

In February 2017, the Company sold its 27.1% indirect interest in Real Estate Fund Investment III. The transaction, together with other distributions received resulted in total net proceeds of €28.7 million over the life of the investment (including €21.0 million of sale proceeds received in February 2017) compared to an acquisition cost of €10.7 million. In February 2017, the Company recognised a realised gain of €1.4 million on disposal of Real Estate Fund Investment III compared to a carrying value of €19.5 million as at 31 December 2016.

**Real Estate Fund Investment IV:**

In May 2016, following the restructuring of an existing legacy debt position, the Company acquired a 100% interest in an unlisted real estate fund "Real Estate Investment Fund IV" for a total cost of €7.0 million. During 2016, the Company also invested an aggregate of €5.0 million in two mezzanine tranches of debt in Real Estate Investment Fund IV.

In October 2017, the Company sold the remaining properties within its Real Estate Fund IV investment. This resulted in net proceeds of €28.6 million over the life of the investment (including €26.9 million of sales proceeds received in Q4 2017), compared to a carrying value as at 31 December 2016 of €19.8 million. The Company, therefore realised a gain of €7.3 million. In addition, the two mezzanine tranches of debt in Real Estate Fund Investment IV were redeemed, resulting in net proceeds of €6.3 million, compared to a carrying value as at 31 December 2016 of €5.5 million. The net gain realised was €0.9 million. The total realised gain recorded in the income statement was €8.2 million.

**Real Estate Fund Investment V:**

In April 2017, building on Real Estate Fund Investment II, the Company closed on its previously committed purchase of an office to residential conversion development site in Rome ("Real Estate Fund Investment V") through a joint venture in Torre Real Estate Fund III Value Added – Sub fund B. Real Estate Fund Investment V is managed by Torre, an affiliate of the Manager.

**Fair value hierarchy**

The following table shows an analysis of the fair value assets on the balance sheet by level of hierarchy:

**As at 31 December 2017:**

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total fair value €'000
doBank Group	271,842	-	-	271,842
NPLs/ PLs	-	-	140,103	140,103
Real Estate Funds	11,119	-	18,841	29,960
<b>Total</b>	<b>282,961</b>	<b>-</b>	<b>158,944</b>	<b>441,905</b>

**As at 31 December 2016:**

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total fair value €'000
doBank Group	-	-	264,741	264,741
NPLs / PLs	-	-	110,033	110,033
Real Estate Funds <sup>(1)</sup>	14,279	5,482	39,352	59,113
Derivative Asset	-	2,144	-	2,144
<b>Total</b>	<b>14,279</b>	<b>7,626</b>	<b>414,126</b>	<b>436,031</b>

Explanation of the fair value hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Use of a model with inputs (other than quoted prices included in Level 1) that are directly and indirectly observable market data.
- Level 3: Use of a model with inputs that are not based on observable market data.

Changes in the observability of significant valuation inputs during the reporting period may result in a transfer of assets and liabilities within the fair value hierarchy. The Company recognises transfers between levels of the fair value hierarchy when there is a significant change in either its principal market or the level of observability of the inputs to the valuation techniques as at the end of the reporting period.

<sup>(1)</sup> Includes two mezzanine tranches of debt in Real Estate Fund Investment IV, previously disclosed as available-for-sale securities.

**9. INVESTMENTS (CONTINUED)****Transfers between levels**

The following table presents the transfer between levels for the year ended 31 December 2017 (31 December 2016: no transfer between levels):

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total fair value €'000
doBank Group	180,360	-	(180,360)	-
<b>Total transfers between Level 1 and Level 3</b>	<b>180,360</b>	<b>-</b>	<b>(180,360)</b>	<b>-</b>

On 12 July 2017, the Company sold 49% of its shares in doBank through an initial public offering. The doBank Group is listed on the Milan Stock Exchange. As a result of the initial public offering, the investment in the doBank Group was transferred from a level 3 investment to a level 1 investment. The investment was transferred at €180 million, representing the fair value of the investment at the date of the initial public offering at €9 per share.

**Level 1 and Level 3 reconciliation**

The changes in investments measured at fair value, for which the Company has used Level 1 and Level 3 inputs to determine fair value as of 31 December 2017 and 2016, are as follows:

**Level 1 Investments:**

	2017 €'000	2016 €'000
Fair value at beginning of year	14,279	14,339
Shares transferred from Level 3 to Level 1	180,360	-
Net change in unrealised fair value gains on investments	88,322	(60)
<b>Fair value of Level 1 investments at end of year</b>	<b>282,961</b>	<b>14,279</b>

The following table shows a reconciliation for the Level 3 fair value measurements as at 31 December 2017:

	doBank Group €'000	NPLs/PLs €'000	Real Estate Funds €'000	Total €'000
As at 1 January 2017	264,741	110,033	39,352	414,126
Distributions received	(24,122)	(68,250)	(1,459)	(93,831)
Unrealised fair value movement in the year	91,871	13,306	(1,977)	103,200
Investments acquired in the year	-	65,121	846	65,967
Transfer	4,945	(4,945)	-	-
Other net assets	45	730	282	1,057
Proceeds on disposal	(166,103)	-	(54,176)	(220,279)
Change due to classification as an investment entity	-	24,108	19,957	44,065
Gain on classification to investment entity	-	-	6,393	6,393
Realised gain on disposal	8,983	-	9,623	18,606
Investments transferred to Level 1	(180,360)	-	-	(180,360)
<b>As at 31 December 2017</b>	<b>-</b>	<b>140,103</b>	<b>18,841</b>	<b>158,944</b>

The following table shows a reconciliation for the Level 3 fair value measurements as at 31 December 2016:

	doBank Group €'000	NPLs/ PLs €'000	Real Estate Funds €'000	Total €'000
As at 1 January 2016	157,733	103,158	15,350	276,241
Distributions received	-	(9,617)	(8,637)	(18,254)
Unrealised fair value movement in the year	107,008	16,492	25,981	149,481
Investments acquired in the year	-	-	7,068	7,068
Adjustment to cost	-	-	(410)	(410)
<b>As at 31 December 2016</b>	<b>264,741</b>	<b>110,033</b>	<b>39,352</b>	<b>414,126</b>

**Expected recoveries of investments**

The following table summarises the expected recoveries for the Italian investments held by the Company:

	2017		2016	
	Within one year <sup>(1)</sup> €'000	More than one year €'000	Within one year <sup>(2)</sup> €'000	More than one year €'000
doBank Group	8,136	263,706	26,165	238,576
NPLs / PLs	57,049	83,054	1,673	134,695
Real Estate Funds	157	29,803	39,352	30,701

(1) Amounts recoverable within one year represent actual and known cash flows as at the reporting date with the residual balance shown as amounts due to mature in over one year.

(2) Amounts recoverable within one year represent actual cash flows received on investments.

**9. INVESTMENTS (CONTINUED)****Fair value methodology and sensitivity analysis****NPLs/ PLs**

The Company's investment in its NPLs / PLs (pools 1 - 22) are classified as level 3 on the fair value hierarchy. The fair value of the investments is derived from internal valuation models. The assumptions used in the models are based on cash flows (actual and projected) per the latest business plan and reviewed by senior management.

The key assumptions made relating to the valuations are set out below:

For the year ended 31 December 2017:

	Italian PLs	Italian NPLs	FINO NPLs	Total
Expected profit multiple <sup>(1)</sup>	2.1	2.1	1.9	2.1
Remaining weighted average life	3.9	4.0	5.1	4.4
Discount rate	23%	12%	15%	14%

The key assumptions reported above are after taking into account the equity invested by the Company into each investment (and therefore are net of any embedded leverage within the respective vehicle at the time the investment was made).

For the year ended 31 December 2016:

	Italian NPLs	Total
Expected profit multiple <sup>(1)</sup>	1.9	1.9
Remaining weighted average life	4.4	4.40
Discount rate	12%	12%

<sup>(1)</sup> The expected profit multiple is derived from the underlying cash flows on which the relevant valuation model is built.

An increase in the remaining weighted average life will decrease the fair value and a decrease in the remaining weighted average life will increase the fair value. An increase in the expected profit multiple will increase the fair value and a decrease in the expected profit multiple will decrease the fair value.

The table below presents the sensitivity of the valuation to a change in the most significant assumption:

For the year ended 31 December 2017:

	Italian PLs €'000	Italian NPLs €'000	FINO NPLs €'000	Total €'000
Fair value	9,189	87,461	43,453	140,103
Increase in discount rate by 25bps	9,116	86,816	43,039	138,971
<b>Value sensitivity</b>	<b>(73)</b>	<b>(645)</b>	<b>(414)</b>	<b>(1,132)</b>

For the year ended 31 December 2016:

	Italian NPLs <sup>(1)</sup> €'000	Total €'000
Fair value	135,614	135,614
Increase in discount rate by 25bps	134,608	134,608
<b>Value sensitivity</b>	<b>(1,006)</b>	<b>(1,006)</b>

<sup>(1)</sup> All Italian NPLs have been included in the sensitivity analysis as the net assets are equal to the fair value of the underlying loan portfolios.

**Real Estate Funds**

As at 31 December 2017, the Company's investment in Real Estate Fund Investment II and Real Estate Fund Investment V were classified as level 3 in the fair value hierarchy. As at 31 December 2016, these investments were equity accounted for and therefore no comparatives are shown below:

The table below presents the sensitivity of the valuation to a change in the most significant assumptions:

For the year ended 31 December 2017	Real Estate Funds	Total
Expected profit multiple	1.4	1.4
Remaining weighted average life	1.4	1.4
Discount rate	19%	19%

The table below presents the sensitivity of the valuation to a change in the most significant assumption:

For the year ended 31 December 2017	Real Estate Funds €'000	Total €'000
Fair value	18,891	18,891
Increase in discount rate by 25bps	18,841	18,841
<b>Value sensitivity</b>	<b>(50)</b>	<b>(50)</b>



**10. CONTRACTUAL MATURITIES****Contractual maturities**

The Company's Italian investments have been funded through equity.

As at 31 December 2017, following the deconsolidation of the Company's final legacy portfolio in June 2017, the Company had no contractual maturities on financial liabilities, outside of trade and other payables which are all due within one year. As at 31 December 2016, the financial liabilities were in connection with the Company's last remaining legacy debt portfolio (CDO V).

The table below summaries the contractual maturities on financial liabilities, excluding trade and other payables as at 31 December 2016:

Type	Total outstanding as at 31 December 2016	Within 1 year	1 to 5 years	Over 5 years
	€'000	€'000	€'000	€'000
<b>Liabilities</b>				
Interest payable <sup>(1)</sup>	1,044	1,044	-	-
CDO bonds payable	60,454	-	-	60,454
Derivative liabilities <sup>(2)</sup>	7,987	-	7,987	-
<b>Total liabilities</b>	<b>69,485</b>	<b>1,044</b>	<b>7,987</b>	<b>60,454</b>

<sup>(1)</sup> Interest payable reflects the payable over the weighted average life of the assets and financing.

<sup>(2)</sup> Derivative liabilities are shown gross, the net position as at 31 December 2016 is a derivative asset of €2.1 million.

**Fair values of financial assets and financial liabilities**

Set out below is a comparison by category of carrying amounts and fair values of the Company's financial instruments that are carried in the financial statements excluding trade and other receivables and payables, and current liabilities whose carrying value is equal to fair value due to the short period before settlement.

	As at 31 December 2017	As at 31 December 2016	As at 31 December 2017	As at 31 December 2016
	Carrying value	Carrying value	Fair value	Fair value
	€'000	€'000	€'000	€'000
<b>Financial assets</b>				
Cash and cash equivalents	121,481	109,078	121,481	109,078
Loans and receivables	-	11,207	-	10,994
Italian investments held at fair value through profit or loss	442,053	460,222	442,053	460,222
Derivative assets	-	2,144	-	2,144
<b>Financial liabilities</b>				
CDO bonds payable	-	60,454	-	10,602

**11. LOANS AND RECEIVABLES - LEGACY DEBT PORTFOLIO**

In June 2017, the Company disposed of its remaining loans and receivables held by CDO V for €11.9 million and utilised the corresponding proceeds, net of a holdback amount, to partially paydown the most senior class of outstanding noteholders. As at 31 December 2017, the Company had no loans and receivables (31 December 2016: €11.2 million).

The movement in the impairment losses is shown below:

	31 December 2017	31 December 2016
	€'000	€'000
Balance as at 1 January	(76,321)	(116,238)
Reversals due to paydowns and sales in the year	76,557	65,441
Impairment losses for the year (refer to note 16)	(699)	(27,567)
Foreign exchange movement on impairments reserve	463	2,043
<b>Carried forward</b>	<b>-</b>	<b>(76,321)</b>

**12. TRADE AND OTHER PAYABLES**

	As at 31 December 2017	As at 31 December 2016
	€'000	€'000
Due to Manager (refer note 19)	3,218	2,136
Dividends payable	-	9,017
Interest payable	-	592
Capital expenditure accruals	-	615
Accrued expenses and other payables	3,852	13,960
<b>Total trade and other payables</b>	<b>7,070</b>	<b>26,320</b>

All the trade and other payables are expected to mature in less than one year.

**13. CDO BONDS PAYABLE - LEGACY DEBT PORTFOLIO**

In June 2017, CDO V liquidated its remaining assets (refer to note 11) and utilised the corresponding proceeds, net of a holdback amount, to partially paydown the most senior class of outstanding noteholders. Upon this paydown, CDO V cancelled its remaining notes in issue and as such the noteholders formally waived their claims on the notes. Accordingly, the Company wrote back CDO bond liabilities of €44.6 million in June 2017 (recorded through the gain on deconsolidation within Legacy Debt discontinued operations - refer to note 16). As at 31 December 2017, the Company had no CDO bonds payable (31 December 2016: €60.5 million).

**14. EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing net profit after taxation by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing net profit available to ordinary shareholders by the weighted average number of ordinary shares outstanding plus the additional dilutive effect of potential ordinary shares during the period. A dilutive effect arises if the exercise price of the share option is lower than the average share price for the option period. As at 31 December 2017, all share options were exercised, therefore there was no dilutive effect (31 December 2016: no dilutive effect).

The Company's potential ordinary shares during the year were the share options issued under its share option plan. There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of the financial statements (refer to note 17).

The following is a reconciliation of the weighted average number of ordinary shares outstanding on a diluted basis:

	As at 31 December 2017	As at 31 December 2016
Weighted average number of ordinary shares excluding treasury shares*	59,582,743	66,087,627
<b>Weighted average number of ordinary shares - dilutive</b>	<b>59,582,743</b>	<b>66,087,627</b>

\*weighted average shares for the year

**15. SHARE CAPITAL AND RESERVES**

As at 31 December 2017, there were 66,121,054 shares (31 December 2016: 66,121,054) issued of which 13,408,890 (31 December 2016: 6,010,641) are held in treasury. All shares are fully paid up.

The movement in issued share capital is shown as follows:

	Number of shares		Total
	Voting shares	Treasury shares	
<b>As at 1 January 2016</b>	<b>72,401,494</b>	-	<b>72,401,494</b>
Shares repurchased and cancelled - 27 June 2016	(6,284,440)	-	<b>(6,284,440)</b>
Shares repurchased and held in treasury - 27 June 2016	(6,010,641)	6,010,641	-
Shares issued to the Directors as part of their in-place compensation arrangements for €nil consideration - 4 August 2016	4,000	-	<b>4,000</b>
<b>As at 31 December 2016</b>	<b>60,110,413</b>	<b>6,010,641</b>	<b>66,121,054</b>

Shares issued from treasury to the Directors as part of their in-place compensation arrangements for €nil consideration - 22 June 2017	3,000	(3,000)	-
Share options exercised by Manager - 11 August 2017 - issued from treasury	998,751	(998,751)	-
Shares repurchased and held in treasury - 22 November 2017	(8,400,000)	8,400,000	-
<b>As at 31 December 2017</b>	<b>52,712,164</b>	<b>13,408,890</b>	<b>66,121,054</b>

**Other reserves**

Until exercised in full, other reserves represent the fair value at the grant date of unexercised share options, granted to the Manager in May 2013 and April 2015 (refer to note 17).

**Accumulated loss**

The reserve represents the cumulative gains and losses and transactions with shareholders (e.g. dividends) not recognised elsewhere.

**Treasury shares reserve**

On 27 June 2016, the Company purchased 6,010,641 of its own equity shares. The treasury share reserve amount is based on the price of €6.10 paid per share and includes costs directly attributable to the share repurchase. On 22 June 2017, the Company issued 3,000 shares to the Directors from treasury shares.

On 11 August 2017, the Manager of the Company exercised all 5.5 million share options on a net settlement basis based on the 10 August 2017 closing price of €9.40 per share. This resulted in the Manager receiving 998,751 ordinary shares. The shares were transferred from treasury shares and no cash was received by the Company.

On 16 November 2017, the Company purchased 8,400,000 of its own equity shares. The treasury share reserve amount is based on the price of €10.00 paid per share and includes costs directly attributable to the share repurchase.

As at 31 December 2017, the total number of shares held in treasury was 13,408,890 (31 December 2016: 6,010,641).

All rights associated with treasury shares held by the Company are suspended until the shares are re-issued.

**16. DISCONTINUED OPERATIONS**

On 30 June 2017, the Company completed the disposal of its remaining interest in its legacy German real estate assets and sold the remaining assets in its legacy debt portfolio business (CDO V). Accordingly, the results of the legacy property business and the legacy debt business are classified as discontinued operations (under IFRS 5) and are presented in the table below. From 1 July 2017, the Company met the requirements to be classified as an investment entity as set out under IFRS 10. With effect from this date, the Company was no longer required to prepare consolidated financial statements, and therefore the results shown below are for the six months ended 30 June 2017.

	Year ended 31 December 2017			Year ended 31 December 2016	
	Legacy Real Estate €'000	Legacy Debt €'000	Total €'000	Legacy Real Estate €'000	Total €'000
<b>Portfolio returns</b>					
Fair value movement on investment	-	(1,012)	(1,012)	-	-
<b>Operating income</b>					
Interest income	-	137	137	-	-
Rental income	7	-	7	22,811	22,811
Service charge income	663	-	663	4,816	4,816
Decrease in fair value of investment properties	-	-	-	(74,610)	(74,610)
Gain on foreign currency translation and other derivatives	-	724	724	-	-
Losses on paydown of loans and receivables	-	(1,730)	(1,730)	-	-
Gain on discounted loan redemptions	-	-	-	15,867	15,867
Gain on deconsolidation of subsidiary undertakings <sup>(1)</sup>	-	43,862	43,862	134,072	134,072
<b>Total income</b>	<b>670</b>	<b>41,981</b>	<b>42,651</b>	<b>102,956</b>	<b>102,956</b>
<b>Operating expenses</b>					
Interest expense	257	504	761	10,877	10,877
Service charge expenses	-	-	-	4,817	4,817
Property operating expenses	(19)	-	(19)	6,542	6,542
Transaction costs	-	110	110	5,717	5,717
Other operating expenses	560	196	756	3,153	3,153
<b>Other expenses</b>					
Impairment losses	-	699	699	-	-
<b>Total Expenses</b>	<b>798</b>	<b>1,509</b>	<b>2,307</b>	<b>31,106</b>	<b>31,106</b>
<b>Net operating (loss) / profit before taxation</b>	<b>(128)</b>	<b>40,472</b>	<b>40,344</b>	<b>71,850</b>	<b>71,850</b>
Taxation (credit) / expense - current	(148)	-	(148)	115	115
Taxation expense - deferred	-	-	-	(682)	(682)
<b>Total tax credit</b>	<b>(148)</b>	<b>-</b>	<b>(148)</b>	<b>(567)</b>	<b>(567)</b>
<b>Profit after taxation for the year</b>	<b>20</b>	<b>40,472</b>	<b>40,492</b>	<b>72,417</b>	<b>72,417</b>

<sup>(1)</sup> In June 2017, CDO V was deconsolidated following the cancellation of all its notes in issue (including the subordinated notes issued to the Company) and waiver of outstanding liabilities by the remaining noteholders at the time. The Company has recognised a gain on deconsolidation of €43.9 million in June 2017.

Adjustments made to the profit to the year for the cash flow statement are summarised below:

	Year ended 31 December 2017 €'000	Year ended 31 December 2016 €'000
Fair value movements on investment	1,012	-
Interest income	(137)	-
Interest expense	761	10,877
Gain on foreign currency and other derivatives	(724)	-
Impairment losses	699	-
Loss on paydown	1,730	-
Amortisation of borrowing costs	-	2,057
Amortisation of tenant incentives / leasing commissions	-	438
Decrease in fair value of investment properties	-	74,610
Gain on deconsolidation and gains on loan redemptions	(43,862)	(149,939)
<b>Total</b>	<b>(40,521)</b>	<b>(61,957)</b>

**17. SHARE OPTIONS**

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

<b>Date of grant</b>	<b>Options outstanding at 1 January 2017</b>	<b>Options issued</b>	<b>Options exercised</b>	<b>Options remaining at 31 December 2017</b>	<b>Fair value at grant date €'000</b>	<b>Exercise price €</b>	<b>Date of expiration</b>
30 May 2013	1,500,000	-	(1,500,000)	-	4,968	7.25	15 May 2023
29 April 2015	3,976,299	-	(3,976,299)	-	4,756	7.85	30 April 2025
<b>Total</b>	<b>5,476,299</b>	<b>-</b>	<b>(5,476,299)</b>	<b>-</b>	<b>9,724</b>		

On 11 August 2017, the Manager of the Company exercised all 5.5 million share options on a net settlement basis, based on the closing share price at 10 August 2017 of €9.40 per share. This resulted in the Manager receiving 998,751 ordinary shares. The shares were transferred from treasury shares and no cash was received by the Company.

Movements in the number of share options for the year ended 31 December 2016 is shown below:

<b>Date of grant</b>	<b>Options outstanding at 1 January 2016</b>	<b>Options issued</b>	<b>Options lapsed</b>	<b>Options remaining at 31 December 2016</b>	<b>Fair value at grant date €'000</b>	<b>Exercise price €</b>	<b>Date of expiration</b>
27 Jan 2006	3,956	-	(3,956)	-	-	3,600.00	27 Jan 2016
27 Jan 2006	6,101	-	(6,101)	-	-	6,000.00	27 Jan 2016
1 Dec 2006	8,829	-	(8,829)	-	-	7,400.00	1 Dec 2016
30 May 2013	1,500,000	-	-	1,500,000	4,968	7.25	15 May 2023
29 April 2015	3,976,299	-	-	3,976,299	4,756	7.85	30 April 2025
<b>Total</b>	<b>5,495,185</b>	<b>-</b>	<b>(18,886)</b>	<b>5,476,299</b>	<b>9,724</b>		

**18. DIVIDENDS PAID AND DECLARED**

The following dividends were declared for the year ended 31 December 2017:

<b>Declaration date</b>	<b>Ex-dividend date</b>	<b>Record date</b>	<b>Payment date</b>	<b>Dividend per share</b>	<b>Amount €'000</b>
16 March 2017	22 March 2017	23 March 2017	31 May 2017	€ 0.150	9,017
18 May 2017	22 May 2017	23 May 2017	31 May 2017	€ 0.140	8,415
03 August 2017	17 August 2017	18 August 2017	31 August 2017	€ 0.410	25,056
28 November 2017	04 December 2017	05 December 2017	11 December 2017	€ 1.130	59,565
<b>Total</b>					<b>102,053</b>

The following dividends were declared for the year ended 31 December 2016:

<b>Declaration date</b>	<b>Ex-dividend date</b>	<b>Record date</b>	<b>Payment date</b>	<b>Dividend per share</b>	<b>Amount €'000</b>
10 March 2016	17 March 2016	18 March 2016	29 April 2016	€ 0.125	9,050
23 June 2016	30 June 2016	01 July 2016	29 July 2016	€ 0.125	7,513
23 September 2016	28 September 2016	29 September 2016	28 October 2016	€ 0.125	7,514
15 December 2016	21 December 2016	22 December 2016	31 January 2017	€ 0.150	9,017
<b>Total</b>					<b>33,094</b>

**19. MANAGEMENT AGREEMENT AND RELATED PARTY TRANSACTIONS**

The Company entered into the Management Agreement with the Manager in August 2003. Pursuant to the Management Agreement, the Manager, under the supervision of the Board of Directors, will formulate investment strategies, arrange for the acquisition of assets, arrange for financing, monitor the performance of the Company's assets and provide certain advisory, administrative and managerial services in connection with the operations of the Company. Since 1 January 2015 the management fee paid to the Manager is equal to (i) 1.5% of the Company's Adjusted NAV reported quarterly, excluding net corporate cash, and (ii) 0.75% of the share of Adjusted NAV relating to net corporate cash. Incentive compensation is equal to 25% of the euro amount by which the Company's Normalised FFO derived from Italian Investments, after allocated corporate costs, exceeds the net invested capital in the Company's Italian Investments multiplied by the hurdle rate of 8% per annum (calculated on a cumulative but not compounding basis). Adjusted NAV, for the purposes of the management fee calculation, excludes all portfolios where the NAV is negative.

The Management Agreement provides that the Company will reimburse the Manager for various expenses incurred by the Manager or its officers, employees and agents on the Company's behalf, including the cost of legal, accounting, tax, auditing, finance, administrative, asset management, property management and other similar services rendered for the Company by providers retained by the Manager or, if provided by the Manager's or its affiliates' employees, in amounts which are no greater than those that would be payable to external professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arms-length basis. Such expenses have been included in the income statement.

When it was signed in 2003 the Management Agreement provided for an initial term of ten years with automatic three year extensions, subject to certain termination rights. The Management Agreement may be terminated by the Company by payment of a termination fee, as defined in the Management Agreement, equal to the amount of management fees earned by the Manager during the 12 consecutive calendar months immediately preceding the termination, upon the vote of a majority of the holders of the outstanding ordinary shares. In addition, unless an arrangement is made between the Company and the Manager, incentive compensation (as outlined above) will continue to be payable to the Manager post-termination.

The Manager is deemed to be the key employee for reporting purposes. As at 31 December 2017, management fees, incentive fees and expense reimbursements of €3.2 million (31 December 2016: €2.1 million) were due to the Manager. During the year ended 31 December 2017, management fees of €7.8 million (31 December 2016: €6.8 million), €29.5 million of incentive fees (31 December 2016: €5.3 million), and expense reimbursements of €1.8 million of which €0.4 million related to discontinued operations (31 December 2016: €3.9 million, of which €2.5 million related to discontinued operations) were charged to the income statement.

Total annual remuneration for the Eurocastle directors is €0.2 million (31 December 2016: €0.1 million), payable quarterly in equal instalments. Randal A. Nardone and Peter Smith do not receive any remuneration from the Company.

As a result of the investment in Italian performing and non-performing loans, the Company is party to various servicing agreements with doBank S.p.A. and its subsidiary Italfondario S.p.A. (together the "doBank Group"). The terms of the agreements have been approved by the Independent Directors. The doBank Group inter alia provides portfolio servicing, cash management and corporate services as part of the agreements in return for an agreed fee. The fee is made up of a fixed annual amount, a percentage of the outstanding portfolio balance as well as a percentage of the amount collected. The total fee paid in 2017 was €4.6 million (2016: €1.8 million). The fee is deducted from the collections prior to distribution. As such, there is no amount outstanding at 31 December 2017.

The Company's investments in Italian loans are originated and underwritten on behalf of the Company by the Manager, with the assistance of external consultants and the doBank Group. The due diligence fees paid by the Company to the doBank Group for deals closed in 2017 was €0.5m. During 2017 the Company incurred due diligence fees of €0.2 million on unsuccessful deals that related to work undertaken by the doBank Group (2016: €0.3 million).

The Fortress Italian NPL Opportunities Fund LLC (which owns the NPL pools) and the Fortress Italian Real Estate Opportunities Series Fund LLC (being the entity where the majority of the Company's interest in Real Estate Fund Investments are held through) are managed by an affiliate of the Manager. The total management fee expense for 2017 is €0.7 million (2016: €0.1 million) and offsets fully against the Company's Management Fee payable to the Manager.

The Company's non-controlling interest in Real Estate Fund Investment I (refer to note 9) along with its joint venture investment in Real Estate Fund Investment II and Real Estate Fund Investment V (refer to note 9) are held in funds managed by Torre SGR S.p.A, which is majority owned by an affiliate of the Manager. The total management fee expense, across both these funds, for 2017 was €0.3 million.

**20. SEGMENTAL REPORTING**

The Company operates in one geographical segment, being Europe. The Company conducts its business through two primary segments: Italian investments and discontinued operations. The Company's Italian Investments are currently made up of an NPL servicing business ("doBank Group"), non-performing loans ("NPLs") and a performing loans ("PLs") portfolio along with real estate fund units. The Discontinued Operations comprise of the Company's former Legacy Debt portfolio and Legacy German Real Estate business.

The Italian Investments segment derives its income from dividends and loan collections.

The Discontinued Operations segment derived its income primarily from rental income, service charge income and interest on loans and receivables.

The Corporate segment relates to the overall running costs of the Company.

Summary financial data of the Company's business segments is provided below:

	Italian Investments €'000	Corporate €'000	Total €'000	Discontinued Operations €'000	Total Eurocastle €'000
<b>Year ended 31 December 2017</b>					
Portfolio returns	225,456	(1,088)	224,368	(1,012)	223,356
Other operating income	-	9,760	9,760	(199)	9,561
Gain on deconsolidation	-	-	-	43,862	43,862
<b>Total operating income</b>	<b>225,456</b>	<b>8,672</b>	<b>234,128</b>	<b>42,651</b>	<b>276,779</b>
Interest expense	-	(286)	(286)	(761)	(1,047)
Other operating expense	-	(40,815)	(40,815)	(847)	(41,662)
Impairment losses	-	-	-	(699)	(699)
<b>Total operating expenses</b>	<b>-</b>	<b>(41,101)</b>	<b>(41,101)</b>	<b>(2,307)</b>	<b>(43,408)</b>
<b>Net operating profit / (loss)</b>	<b>225,456</b>	<b>(32,429)</b>	<b>193,027</b>	<b>40,344</b>	<b>233,371</b>
Taxation expense	(16)	-	(16)	148	132
<b>Net income / (loss) after taxation</b>	<b>225,440</b>	<b>(32,429)</b>	<b>193,011</b>	<b>40,492</b>	<b>233,503</b>
Non controlling interest	34	-	34	-	34
<b>Net income / (loss) after non controlling interest</b>	<b>225,474</b>	<b>(32,429)</b>	<b>193,045</b>	<b>40,492</b>	<b>233,537</b>

	Italian Investments €'000	Corporate €'000	Total €'000	Legacy Debt Portfolio €'000	Discontinued Operations €'000	Total Eurocastle €'000
<b>Year ended 31 December 2016</b>						
Portfolio returns	151,090	-	151,090	2,111	-	153,201
Revenue	-	(28)	(28)	828	27,627	28,427
Other operating income	-	542	542	(1,046)	75,329	74,825
<b>Total operating income</b>	<b>151,090</b>	<b>514</b>	<b>151,604</b>	<b>1,893</b>	<b>102,956</b>	<b>256,453</b>
Interest expense	-	(188)	(188)	(2,364)	(10,877)	(13,429)
Other operating expense	(338)	(15,761)	(16,099)	(637)	(20,229)	(36,965)
Impairment losses	-	-	-	(30,960)	-	(30,960)
<b>Total operating expenses</b>	<b>(338)</b>	<b>(15,949)</b>	<b>(16,287)</b>	<b>(33,961)</b>	<b>(31,106)</b>	<b>(81,354)</b>
<b>Net operating profit / (loss)</b>	<b>150,752</b>	<b>(15,435)</b>	<b>135,317</b>	<b>(32,068)</b>	<b>71,850</b>	<b>175,099</b>
Taxation expense	(272)	-	(272)	(4)	567	291
<b>Net income / (loss) after taxation</b>	<b>150,480</b>	<b>(15,435)</b>	<b>135,045</b>	<b>(32,072)</b>	<b>72,417</b>	<b>175,390</b>
Non controlling interest	(313)	-	(313)	-	-	(313)
<b>Net income / (loss) after non controlling interest</b>	<b>150,167</b>	<b>(15,435)</b>	<b>134,732</b>	<b>(32,072)</b>	<b>72,417</b>	<b>175,077</b>

**20. SEGMENTAL REPORTING (CONTINUED)****Segmental Balance Sheet**

The segmental balance sheet as at 31 December 2017 is summarised below:

<b>As at 31 December 2017</b>	<b>Italian Investments €'000</b>	<b>Corporate €'000</b>	<b>Total €'000</b>	<b>Discontinued Operations €'000</b>	<b>Total Eurocastle €'000</b>
Total assets <sup>(1)</sup>	441,905	121,684	563,589	-	563,589
Total liabilities	-	(7,070)	(7,070)	-	(7,070)
<b>Net assets</b>	<b>441,905</b>	<b>114,614</b>	<b>556,519</b>	<b>-</b>	<b>556,519</b>

The segmental balance sheet as at 31 December 2016 is summarised below:

<b>As at 31 December 2016</b>	<b>Italian Investments €'000</b>	<b>Corporate €'000</b>	<b>Total €'000</b>	<b>Legacy Debt Portfolio €'000</b>	<b>Discontinued Operations €'000</b>	<b>Total Eurocastle €'000</b>
Total assets <sup>(1)</sup>	473,675	100,447	574,122	18,334	7,669	600,125
Total liabilities	(2,796)	(15,475)	(18,271)	(60,949)	(7,554)	(86,774)
<b>Segment net assets / (liabilities)</b>	<b>470,879</b>	<b>84,972</b>	<b>555,851</b>	<b>(42,615)</b>	<b>115</b>	<b>513,351</b>
Tax liabilities	(17)	(4,649)	(4,666)	(2)	(108)	(4,776)
Non-controlling interest	(1,058)	-	(1,058)	-	-	(1,058)
<b>Net assets / (liabilities)</b>	<b>469,804</b>	<b>80,323</b>	<b>550,127</b>	<b>(42,617)</b>	<b>7</b>	<b>507,517</b>

<sup>(1)</sup> The significant non-current assets within the key business segments are attributable to countries as follows: Italian Investments (Italy); Legacy Debt Portfolio (Ireland); and Discontinued Operations (Germany).

Segment assets for the Italian Investments segment represent the servicing business of the doBank Group, performing and non-performing loan pools as well as real estate fund units. Segment assets for the Discontinued Operations segment include investment properties (up to the disposal date of each respective portfolio) and loans and receivables attributable to the Company's legacy debt portfolios. Segment assets for the Corporate segment relates predominantly to cash.

Segment liabilities for the corporate segment represent the Company's trade and other payables.

**21. INVESTMENT IN SUBSIDIARIES**

The Company has investments in the following subsidiaries (unless otherwise stated the Company has a 100% interest in the entity):

**Luxembourg:**

Italy Investment S.à r.l  
 Verona Holdco S.à r.l  
 Undercroft S.à r.l  
 Luxgate S.à r.l  
 Eurobarbican S.à r.l  
 Bastion Lux Participation S.à r.l (in liquidation)  
 Bastion Limited Partnership S.à r.l (in liquidation)  
 Belfry Lux Participation S.à r.l  
 Belfry Managing Partner S.à r.l  
 Truss Lux Participation S.à r.l  
 Truss Managing Partner S.à r.l  
 Marathon S.à r.l (in liquidation)  
 Zama (Windhoek) S.à r.l (in liquidation)  
 Mars Holdco S.à r.l  
 Finial S.à r.l

**Germany:**

Short Wave Acquisition GmbH

**Italy:**

FMIL S.r.l  
 Palazzo Finance S.r.l. (Indirect holding of 80.66%)  
 SPV Ieffè S.r.l. (Indirect holding of 80.66%)  
 SPV Ieffè Due S.r.l. (Indirect holding of 80.66%)  
 SPV Ieffè Tre S.r.l. (Indirect holding of 80.66%)

**United States of America:**

Fortress Italian Real Estate Opportunities Series Fund LLC - Series 1  
 Fortress Italian Real Estate Opportunities Series Fund LLC - Series 2

**Ireland:**

Additionally the Company has an investment in Eurocastle Funding Designated Activity Company (incorporated in Ireland).

As at 31 December 2017, the unconsolidated subsidiaries do not have any significant restrictions (eg resulting from borrowing arrangements, regulatory requirements or contractual arrangements) on the ability to transfer funds to the Company in the form of cash dividends or to repay loans or advances made to the unconsolidated subsidiary by the Company.

**22. SUBSEQUENT EVENTS**

On 26 January 2018, the Company announced that it has raised approximately €48 million of net proceeds through the sale of its share of the senior notes of FINO 1 Securitisation S.r.l., one of the two securitisations that collectively own the FINO non-performing loan portfolio acquired from Unicredit S.p.A.

In February 2018, the Company closed on its previously announced follow-on investment of €8.4 million in the mezzanine and junior notes of the two FINO securitisations. The additional investment brings the Company's total investment to date in the FINO portfolio to approximately €52 million, of which approximately €48 million has now been financed through the sale of the senior notes in FINO 1. An additional deferred purchase price of €64.7 million is payable over the next few years.

**23. COMMITMENTS**

As at 31 December 2017, the Company had entered into a formal commitment of €8.2 million, of which it expects to fund €5.8 million in a second Italian Real Estate Redevelopment Fund (Real Estate Fund Investment V). The undrawn formal commitment as at 31 December 2017 is €3.2 million with the remaining expected commitment being €0.8 million due to be funded within the next six months. The formal commitment endures for a further 36 months.

In July 2017 the Company closed on its previously committed FINO NPL investment deploying approximately €44 million to acquire alongside other affiliates of the Manager a 50.1% interest in a €14.4 billion NPL portfolio from UniCredit S.p.A.. The transaction entails further amounts payable by the Company over the next few years up to an amount of €64.7 million.





## CORPORATE INFORMATION

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### BOARD OF DIRECTORS

Randal A. Nardone

Jason Sherwill

Peter M. Smith

Dr. Simon J. Thornton

Claire Whittet

### INVESTMENT MANAGER

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### REGISTERED OFFICE OF THE COMPANY

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## FORWARD-LOOKING STATEMENTS

This report contains statements that constitute forward-looking statements. Such forward-looking statements relate to, among other things, future commitments to acquire real estate and achievement of acquisition targets, availability of attractive investment opportunities, methods of funding portfolios, timing of completion of acquisitions, the operating performance of our investments and financing needs. Forward-looking statements are generally identifiable by use of forward-looking terminology such as "may", "will", "should", "potential", "intend", "expect", "endeavour", "seek", "anticipate", "estimate", "overestimate", "underestimate", "believe", "could", "project", "predict", "continue", "plan", "forecast" or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Our ability to predict results or the actual effect of future plans or strategies is limited. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance may differ materially from those set forth in the forward-looking statements. These forward-looking statements are subject to risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results or stated expectations, including the risks regarding Eurocastle's ability to achieve its targets regarding asset disposals or leasing or that Eurocastle will be able to fund or repay its liabilities.



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